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THE TRUE THEORY OF RENT,

IN OPPOSITION TO MR. RICARDO AND OTHERS.

BEING

'An Exposition of Fallacies on Rent, Tithes, &c.'

In the form of a Review of Mr. Mill's Elements of Political Economy.

By a Member of the University of Cambridge.

SECOND EDITION.

LONDON:

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THE following Article was offered in June last to the Quarterly Review, with an intimation that the writer in the event of its acceptance desired only the opportunity of correcting the press, but would be glad to employ his paper in some other way if no answer was returned within a month.

The answer returned consisted in the transmission of the printed Article, without note or comment.

The proofs were sent back corrected; but the Article did not appear.

Finally, after the lapse of five months, the conductors of the Review were found protesting against being hurried in their decision.

Under the circumstances of the offer, they ought not to have printed, without having made up their minds to accept.

It seemed desirable for all parties that the Article should be published;—for the writer, that his paper might appear before the interest of the question was gone by; and for the Review, that it might be able to go over the same subjects, without being in the unpleasant situation of having unpublished matter in its press.

No alterations have been made, except such as would have equally taken place under any other event if the opportunity had been allowed.

The facts stated will account for the form of the publication; which might otherwise appear extraordinary.

On one of the theories opposed, the writer is anxious to avoid the imputation of wishing to give any unneces-

sary offence. It was impossible to go through the book under consideration, and omit the subject. The conclusions arrived at in the commentary are either true or they are not. If they are true, they ought to be stated; if they are not, their fallacy can be shown. The writer is only desirous to have it believed, that he designed to confine himself to such an examination of the proposition, as the school which determined on avowing it must manifestly have intended to bring on.

He who undertakes to point out errors in the arguments of others, is unable to engage that there shall be none in his own. With reasonable men the measure of his success will be, the degree in which, on the whole, he may be found to have assisted the progress of truth.

T. Perronet Thompson,
Queen's Coll.

6, Buckingham Street,
Dec. 18, 1826.

Alterations introduced into the Second Edition.

A note has been added on the subject of Glut, in p. 58.

In p. 58, l. 44 of the first edition, for 'commodities' *read* 'manufactures.'

In p. 59, l. 23 of the first edition, for 'less of one thing and more of something else.' *read* 'less of one kind of manufactures and more of some other.' *In l. 24, for* 'commodities' *read* 'kinds.'

Exposition of Fallacies on Rent, Tithes, &c.

THE public can have no just cause of apprehension from political economy; but a great deal from *bad* political economy, which is in fact no political economy at all. What it is of importance therefore to promote, is the direction of the same rigid processes to this science, that have been extended to the earlier and more forward branches of human knowledge. The discoveries already made have been so striking, that the coming age is probably destined to witness as great a determination of interest to this quarter, as took place towards natural philosophy in the period which followed the discoveries of Kepler and of Newton. And in reality the subject is only another branch of the philosophy of natural phenomena, and to be pursued by the same rules as any of the others. For no reason can be given why the connection, for example, between the demand for a given substance and the supply, should not be as legitimate an object of philosophical examination, as the connection between two bodies at the ends of a lever, or between two substances which exercise a chemical action upon each other.

If the English universities, which have always been in a great measure the depositories of knowledge in other branches of physical inquiry, have been too little sensible of the degree in which the interests of science are concerned in this class of subjects, it is only the more necessary that they should be excited to a consciousness of the reality. And if it further happens, that their particular interests are, to say the least, as much concerned as those of any other part of the community, the truth is not less the truth because the defender is injured by the error. Should they, therefore, suffer from the effects of fallacies such as men of very moderate rank among their pupils would take off if presented in the schools, they can only blame their own supineness for whatever may be the possible result. If the faulty conclusion had related to tides or to telescopes, they would have opposed it by the dissemination of a counter-version of the truth. But because it relates to a tax or a tithe, it is treated as if it had no possible connection with 'a succession of able men in church

or state,' and was devoid of all relation to 'sound learning and religious education.'

The same class of writers whose political economy is the most suspicious, have been unsparing in their invectives against academical institutions, and have at least done all in their power to provoke them to a salutary jealousy. Many of the accusers were members of the universities, who having themselves carried little away, had a certain excuse for feeling no gratitude. Others there were of a rarer sort, who declared, that after having won learning to be their bride, they had found her all barrenness;—nothing reflecting, how different is the conclusion of the public in such cases, from that which the complainant would suggest. One of the leading charges against the universities has been, that they do not turn their learning to a substantial use. There is at all events one use to which it might advantageously be turned; which is, the examination of the theories of their assailants.

The object of this article is to bring the opinions of what has denominated itself 'the new school of political economy,' to the test of something like such an examination as is continually undergone by every theory which makes part of the system of education in an English university. And for this purpose a work has been selected, which is the acknowledged epitome of the opinions in question, with the latest corrections and additions.

The account given of Capital would have been clearer, if it had begun with the definition. Capital, is wealth employed in the production of other wealth. After this, the elucidation of particular points is easy.

But it is on arriving at the subject of Rent, that the disputed matter commences. Much as the assertion may move of anger or contempt, the celebrated Theory of Rent is founded on a fallacy. The easiest way of proceeding to show this, will be by giving the substance of the paragraphs that contain the argument; referring to the author quoted, or any other writer on the same side, to remove the suspicion of misrepresentation,—and marking with italics the stages where the fallacy appears.

'Land is of different degrees of fertility. &c.

Lands, of the highest fertility, do not yield the whole of what they are capable of yielding, with the same facility. &c.

Till the whole of the best land is brought under cultivation, and till it has received the application of a certain quantity of capital, all the capital employed upon the land is employed with an equal return. At a certain point, however, no additional capital can be employed upon the same land, without a diminution of return. &c.

When capital producing a lower return is applied to the land, it is applied in one of two ways. It is either applied to new land of

the second degree of fertility, then for the first time brought under cultivation; or it is applied to land of the first degree of fertility, which has already received all the capital which can be applied without a diminution of return.

Whether capital shall be applied to land of the second degree of fertility, or in a second dose to the land of the first degree of fertility, will depend, in each instance, upon the nature and qualities of the two soils. &c.

The land of the different degrees of fertility; first, or highest sort; second, or next highest, &c. No. 1, No. 2, No. 3, &c. 1st dose, 2d dose, 3d dose, and so on.

So long as land produces nothing, it is not worth appropriating. &c.

During this time, land, speaking correctly, yields no rent. &c.

The time, however, arrives, as population, and the demand for food increase, *when it is necessary* either to have recourse to land of the second quality, or to apply a second dose of capital, less productively, upon land of the first quality.

If a man cultivates land of the second quality, upon which a certain quantity of capital will produce only eight quarters of corn, while the same quantity of capital upon land of the first quality will produce ten quarters; it will make no difference to him, whether he pay two quarters for leave to cultivate the first sort, or cultivate the second without any payment. He will therefore be content to pay two quarters for leave to cultivate the first sort; *and that payment constitutes rent.*

Let us suppose, again, that instead of cultivating land of the second quality, it is more advisable to apply a second dose of capital to land of the first quality;—&c. The effect upon rent is thus the same in both cases.

It follows that rent increases in proportion as the productive power of the capital, successively bestowed upon the land, decreases. &c.

We may thus obtain a general expression for rent. In applying capital, either to lands of various degrees of fertility, or, in successive doses, to the same land, some portions of the capital so employed are attended with a greater produce, some with a less. That which yields the least, yields all that is necessary for re-imbursing and rewarding the capitalist. The capitalist will receive no more than this remuneration for any portion of capital which he employs, because the competition of others will prevent him. All that is yielded above this remuneration, the landlord will be able to appropriate. *Rent, therefore, is the difference between the return made to the more productive portions, and that which is made to the least productive portion, of capital, employed upon the land.*'—Mill, p. 29—33.

The matters of fact stated in the outset are entirely and absolutely true. The fallacy lies, in assuming to be the cause what in reality is only a consequence. A man of six feet in height is a foot taller than a man of five, and two feet taller than a man of four, and if it had happened that there were men of all heights down to absolutely nothing, his height would have been equal to the difference between the highest and

lowest classes;—*therefore* men of six feet exist because there are men of smaller altitudes, and would not have existed without them. Proof spirit sells for a certain price, and more diluted spirits sell for inferior prices till they come to that which is worth no more than water;—*therefore* the reason why proof spirit sells for a high price, is that there are weaker spirits which are selling for a lower, and if there had happened to have been no weaker spirits the proof spirit would not have sold at all. These are specimens of the kind of fallacy involved. There is precisely the same nullity of proof, that what is quite true with respect to the concomitant circumstances when they happen to exist, is therefore the essential and inseparable cause, without which the principal phenomenon could not have taken place. *When* it happens,—or even if it *always* happens,—that there exist soils of various degrees of productiveness down to that which does no more than replace the expense of cultivation with the necessary profit, and that men are moreover acquainted with the art of forcing increased crops by the application of more capital,—all that is stated with respect to the rent being equal to the difference between the highest and lowest returns, is as necessarily and undeniably true as any thing that has been stated with respect to proof spirit or men of six feet. But all this is no manner of evidence that these circumstances are the *causes* of the principal phenomenon and that it could not have existed without them, in one case more than in the others. In all the cases, this kind of conclusion is a pure fallacy, a simple *non causa pro causâ*. On the truth or falsehood of this, depend the merits of the whole Theory of Rent and its consequences.

It is easy to imagine the existence of a country in which the land should be of a uniform and high quality, and where, from the great facility of procuring crops and the consequent non-improvement of agricultural science, the cultivators should, for ages together, have no idea of the processes by which a European farmer forces an increased crop through the expenditure of an increased quantity of capital upon the land. The whole of the cultivated portion of Egypt, and great part of India, present specimens of such a state of things; and yet in both these countries, a heavy rent is paid to the great landlord which is the government. If it was shown before, that the Theory of Rent is not true by virtue of the reasoning contained in it, this supplies the experimental proof that it is not true by accident either.

The simple cause of rent, in such countries and every where else, is what Adam Smith described it to be long ago. It is the same that gives rise to the rent of the vineyard that pro-

duces Tokay. It is *the limited quantity of the land, in comparison with the competitors for its produce;* or, as it is sometimes called, the monopoly*. Let the case be supposed of a small number of settlers taking possession of a large and fertile island; and let the soil be so good, and their habits of agricultural energy so limited, that a slight scratching of the ground and throwing in the seed shall be all the cultivation they ever think of bestowing, as for ages together has been a picture of the agriculture of many tropical countries. If the land was unappropriated and every man might occupy at will, it is plain that in the commencement no man would pay another any rent. Or if instead of the land being entirely unappropriated, the right of property in it was vested in a number of owners, but who were without the means of bringing the land into immediate cultivation, it would be equally plain that the competition among these owners would in the commencement reduce the rent which any of them could obtain, to the lowest possible magnitude, which is in fact no magnitude at all. In such an establishment, the degree of each man's wealth, supposing him to possess the brief capital required for setting his industry in motion, would be in proportion to the exertions of himself or of his family. He that by his activity could raise or collect much corn, fruit, sheep, furs, or whatever else were the objects of industry within his reach, would be comparatively rich. Such manufactures as he stood in need of, he must obtain either by the uneconomical process of employing part of his own labour or that of his dependents in their production, or by paying for them with part of his agricultural produce to such artisans as in the progress of the division of labour would make their appearance. But as he would have no alternative but either to pay the artisans their price, or have recourse to the uneconomical and wasteful method of manufacturing the articles himself, the recompense of these artisans would in the commencement be exceedingly liberal, and their lives easy. They would be a comparatively idle and insolent race, working when they pleased, and almost for what they pleased; as artisans are always described to be in newly peopled agricultural countries. But when population and cultivation had increased so as to begin to press against the limits of the soil, and there was no

* When the term monopoly is applied to land, it means a monopoly arising, not from any immediate act of the owner, but from the limited quantity of the land in comparison with the competitors for its produce. It is therefore, in one sense, an involuntary monopoly, not an arbitrary one. This distinction is sometimes of importance.

longer new land to be had for asking, a very different scene would begin to arise. All the population which was not employed in agricultural labour, or supported without labour upon some kind of previous accumulation, must apply itself to manufacturing industry. And as the number of persons so employed increased, a competition would arise among them for the products of agriculture upon which they must live; and this competition would oblige them to give a greater portion of the results of their own labour, in return for a smaller and less luxurious quantity of agricultural produce than they had been accustomed to receive. It is true that the land must finally find food for all that live on it, as the vineyard finds wine for all that finally drink Tokay; but it does not therefore follow, that many of those who live on it may not, when their numbers have increased, live much less abundantly than they used to do, and give a much greater quantity of the results of their own labour in return for a given quantity of the produce. It is proved by the experience of all countries, that moderately good land is capable of producing food for many times the number of hands required for its cultivation; hence all these numbers may be called into being, to assist in the demand. If the exchange of commodities was conducted by the intervention of a circulating medium, the money price of agricultural produce must rise in comparison with the money prices of other commodities. Whether this comparative rise would take place by an increase in the money price of corn, or by a diminution in the money prices of other commodities, or by both these processes at once, would depend on the manner and degree in which the community had the opportunity of supplying itself with the metals employed in coins, or on other circumstances connected with the principles of Currency. But in whatever manner it took place, its effects would be virtually the same; so that it is sufficient to consider the case where the whole alteration is supposed to take place in the money price of agricultural produce. The land-owners, then, would begin to get rich, through the simple fact of their being the land-owners and there being no more land to own. If it should be found some day that a contiguous island had sprung up of the same nature with the first, their prospect of increased wealth would drop at once; and every thing would go on as it did at the commencement, till the new island had been cultivated and peopled like the other. But if this does not happen, the lucky land-owners will incontinently begin to swell into men of landed wealth. If they keep their land in their own hands, they will rise into what are termed gentlemen-farmers, or

men who unite in their own persons the characters of landlord and cultivator. But as soon as what they obtain by the sale of their produce, is sufficiently greater than the amount for which they can hire one of their less fortunate neighbours, who is heir to his own industry and no land beside, the greater part of them will hire a farming-man or overseer with part of the produce, and sit down in the enjoyment of the *otium cum dignitate* of landed gentlemen with the remainder. And from this step of the farming-man, they will soon proceed to the further one, of finding a farming-man who will advance his own capital, making an adequate deduction out of the produce in return,—or in other words a farmer or tenant. The reason of this further step will be, their desire to get more completely rid of the trouble of superintending the employment of the capital; for a tenant has his own interest at stake in watching it with the utmost exactness, while a farming-man, having no such interest, must still be superintended in a considerable degree. And all the *residuum* left after delivering to the tenant the portion of the proceeds which the competition among individuals of his class obliges him to accept, will go to the landlord as rent*. And what the tenant will be obliged to accept, will be such a part of the price of the produce, as will return him the capital he must lay out, with the lowest rate of profit for which men under the existing habits of the society will consent to lay out farming capital and superintend its employment. But of the existence of this residuum, the primary cause is manifestly the increase in the comparative price of corn. As it has been accurately expressed by another author, 'Rent will be paid because corn sells high; and not corn sell high because rent is paid†.'

If it should be objected, that a rise in the money price of corn must create a corresponding rise in the money prices of other commodities,—the answer is, that this is as far from following, as that a rise in the price of corn must create a

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* When the term *residuum* is employed in the sequel, it invariably means all that is left after satisfying the tenant; out of which it is evident that rent, taxes, and every thing else must come.

This residuum is often loosely called *rent*, in cases which demand a clearer term. There are in fact two popular meanings of the word rent; one, the total residuum here mentioned; and the other, the share finally left for the landlord, which will be called for distinction *rent to the landlord*.

In making this distinction nothing is done towards prejudging the question of whether the residuum may not rise with taxation, so as to leave the landlord's share the same as before; which is in fact the principal question at issue.

† Principles of Political Economy and Taxation. By David Ricardo, Esq. p. 62.

rise in wages, at a time when the fact avowedly is that the increase of competition among the labourers is such as to oblige them to accept a diminished recompense. The cases are in reality alike.

In all this there is no occasion for a word about different qualities of land, or doses of capital. The abstract case is what is to be settled first; and then the accidents are to be taken into the account, till the whole is brought to the case presented in nature. This is the way men philosophize in other instances; and must needs be the way in this. To say that the abstract case is not the practical one, would be the argument of a man who had never contemplated such a process as analysis. All complex cases are solved by dividing them into abstract ones; and almost all the cases of nature are complex.

If it *happens* that there are lands of every variety of downward quality, then as population, competition for food, and prices increase, men will be enabled and induced to take lower and lower qualities of land successively into cultivation, stopping always at the quality where the produce will do no more than repay the expenses with the lowest profit for which they will consent to lay out capital and superintend its employment. At the same time the value of the produce on all the superior lands will increase; and since all the difference between the actual proceeds and what allows that lowest profit, will be taken for rent at the first moment when the landlord is able to avail himself of the competition which is in his favour, the rent, on all the qualities of land above the lowest, will increase also. The quantum of inferiority with which new lands can be brought into cultivation, will be determined by the rise in the price of produce, which is what makes their cultivation practicable. The increased quantity of produce brought into existence by the cultivation of this new land, will create a certain degree of reaction upon the price of produce, and consequently upon the quantity of new land finally brought into cultivation; or will cause them to be something less than would otherwise have been the case. But a reaction of this kind can never go the whole length of reducing the price to its original magnitude. For if it reduced it to this point, the quantity of land and of produce would be reduced to their original magnitudes also. But a reaction cannot be created by an increase of produce that is nothing. Hence if there is to be any reaction at all, there must be some increase of produce to make it, and some increase of price to cause that increase of produce. The price therefore must finally be raised, in spite of the reaction. And it will not only be raised,

but—since the magnitude of the reaction altogether, must depend on the magnitude of the increase of produce compared with the magnitude of the whole produce that existed before, —in all the cases which occur in practice the effect of the reaction will be comparatively small. But in all this, *it is the rise in the price of produce*,—of which a rise in rent is a necessary concomitant,—*that enables and causes inferior land to be brought into cultivation; and not the cultivation of inferior land that causes the rise of rent.* It is surprising that the author last quoted should have discerned so accurately the fallacy of supposing that corn sells high because rent is paid, instead of that rent is paid because corn sells high,—and should not have observed the kindred fallacy contained in the inversion of the proposition given in italics above.

The operation of an increase in the price of produce in causing a greater outlay to be made upon the land, and the mode in which the proceeds will be divided between the landlord and the tenant, may also easily be traced. Let the case be supposed of a land-owner who unites the characters of landlord and cultivator; and let the lowest rate of profit for which he and other cultivators are willing to advance capital and superintend its employment, be 10 per cent per annum*. And let the amount of what he annually lays out on the land be 1000£, and the final value of the produce 1200£. Now the reason why this cultivator does not lay out annually on the land a *greater* sum than 1000£, as for instance 1010£,—is because he knows, either by actual experiment or by that tact which enables him to do without it, that the final value of the whole produce would be increased by less than 11£, which is the lowest return for which he is willing to advance the 10£. If he was to add a second 10£, it may be that it would be returned with no profit at all; and if he was to add a third, it might cause him a loss; and no man in his senses would do either. The reason why he does not lay out a *smaller* sum than 1000£, as for instance 990£,—is because he knows that the final value of the produce would be diminished by more than 11£, and that consequently he should lose an opportunity of employing 10£ with what he considers as a fair profit.

* This lowest rate of profit must always be something; for nobody will incur the risk and trouble of employing capital, for nothing. And in countries where a certain rate of interest can be had from safe borrowers consisting either of individuals or the government, this fact is at once a proof that in those countries men in general do not employ capital without a profit greater than such interest, and a reason why no individual under any circumstances will do so. For sooner than do so, individuals would lend their money or buy stock, and receive the returns without risk or trouble.

And for the same reasons that this cultivator will lay out exactly 1000£ upon the land, any other man desirous of laying out agricultural capital for a profit of 10 per cent per annum will agree to do the same. The land-owner therefore may, if he pleases, find a man who will engage to lay out 1000£ per annum on the land on condition of retaining 1100£ out of the proceeds,—or in other words pay 100£ a year out of the produce as rent. If he was to offer it for a less rent than this, the farmer would only put the difference into his pocket and not increase the outlay on the land. If he was to demand a greater rent, he could not get it; because the farmer could not live. Hence if the land-owner continues to keep the land in his own hands, he may with propriety consider 100£ per annum as what he makes by being his own farmer, and 100£ per annum as what he receives by virtue of his good fortune in being landlord. Or the annual gain of 200£ may be considered as dividing itself into two parts, of which 100£ is of the nature of profits of stock, and 100£ of the nature of rent. To find now the effects of an increase in the price of produce, let it be supposed that the annual produce of the land is 600 quarters, corn being at 40*s.* per quarter; and that the addition of 10£ to the present annual outlay of 1000£, instead of effecting an increase of five quarters and a half in the annual produce, which is what would be required in order to bring in 11£, will only effect an increase of five quarters. In this case it is evident that an increase in the price of corn of four shillings per quarter, would cause the five quarters to fetch 11£, and make it worth while for the cultivator to add the 10£ to the outlay; and it would be added accordingly. But at the same time that the annual produce of the estate was thus increased by five quarters, and the part of the final gain which resolves itself into the profits of stock was increased from 100£ to 101£,—the price of the other 600 quarters would be increased by 120£, which would be rent, and make the whole rent 220£. And if the addition of a second 10£ to the annual outlay would produce four more quarters, then to make it worth while to add this second 10£ to the outlay, the price of four quarters must rise to 11£, or the quarter to 55*s.*; which would increase the portion that resolves itself into profits of stock to 102£, and make the rent rise again by 332£. 15*s.*, or the whole rent be 552£. 15*s.* It is true that a certain degree of reaction would from time to time take place on the price of corn, in consequence of the increase of produce created by the operations of this and other land-owners. But as was shown before, the reaction cannot go the length of restoring the price of corn to what it was originally; and when

it is said that corn rises by four shillings or any other sum, this includes all reactions, and consequently no correction for reaction is required. And the sums thus stated to be of the nature of rent, are what the land-owner, if he chuses to let his land, would in the long run be able to obtain in the several circumstances described. If the landlord mismanages his own affairs,—if he hampers himself with leases which prevent him from taking a fair advantage from time to time of the competition among the farmers,—or if he finds it impracticable in the nature of things to regulate a contract of the description concerned with incessant and inviolable accuracy,—these are not the defects of the theory, but of the execution. This distinction is of the greater importance, because many of the difficulties which arise on the subject of rent, proceed from confounding the irregularities in its receipt which spring out of the absence of an incessantly active system of operation upon each other on the parts of the landlord and tenant, with the amount which will be received in the long run and upon the whole, and to which all the contracts between landlord and tenant will tend as to a mean.

It may be collected, therefore, that the effect of every successive increase of price will be, in the first place, to make rent rise every where by the amount of the increase of price upon the previous produce, as fast as the landlords have the opportunity of adjusting their agreements with their tenants. And in the next place, the effect will be to bring a certain belt of new land into cultivation, *provided there happens to exist* land so circumstanced in point of quality as to be capable of being brought into cultivation with a profit by the supposed increase of price; and to cause a certain augmentation of outlay on all the other lands in cultivation, *provided the cultivators are acquainted* with the method of forcing a greater crop by a greater outlay. And the consequences of these two operations, *if they take place*, will be a certain increase of produce, and a certain reaction on the price of produce in the way of keeping it down, which must however fall far short of keeping it down to its original state. In the same manner every successive diminution of price will cause all the contrary results. The most marked consequence will be to make rent fall every where by the amount of the decrease of price upon the final produce; which will take place as fast as the tenants have the opportunity of adjusting their agreements with the landlords. And besides this, a certain belt of land will be thrown out of cultivation, and a certain diminution of outlay be made on other lands; *under the provisoes stated in the other case*. And the consequences of these two operations, if they

take place, will be a certain diminution of produce, and a certain reaction on the price of produce in the way of keeping it up, which must however fall far short of keeping it up to its original height.

The effects of agricultural improvements may be traced in a similar manner. The improvement may either be one which makes a saving in some part of the expense of bringing the produce to market, as for instance a threshing-machine; or it may be one which requires an increased outlay upon the land but returns an increased quantity of produce, as for instance drill husbandry. And first, of the first kind. Suppose then the same case as before; corn being at 40*s.* In these circumstances, the diminution in the expense of threshing necessary to cause the five additional quarters to be produced by the cultivator, would be such as would make the price received for these five quarters afford a profit of 10 per cent. As an approximation, therefore, it may be stated, that the threshing-machine, after every fair allowance for its cost, must reduce the expense of bringing five quarters to market, from 10£ to ten elevenths of 10£, or 9£. 1*s.* 10*d.*,—or effect a saving in threshing corn, of 3*s.* 7½*d.* per quarter. But a correction must be applied for the reaction effected from time to time on the price of corn by the appearance of the additional quantity created by the operations of this and other cultivators in consequence of the invention of threshing-machines. For example, the fact might turn out to be, that instead of a saving of 3*s.* 7½*d.* per quarter producing the effect described, a saving of 3*s.* 11¼*d.* might be finally required to do it, in consequence of corn contemporaneously falling from 40*s.* to 39*s.* 8*d.* through the reaction on the price*. If this diminution of expense should be effected by threshing-machines, such an outlay would be made on the land as would cause the additional five

* If there was no reaction on the price of corn, the saving of 3*s.* 7½*d.* per quarter would cause on the estate in question an increase of produce of a hundred-and-twentieth part. If this estate may be taken as a sample of the average quality of estates throughout the country, a hundred-and-twentieth may be assumed as the average increase of produce effected by threshing-machines; but if not, then some other fraction must be assumed. Suppose then, that the average increase is a hundred-and-twentieth. This increase, being comparatively small, will have an effect on the price of corn, at all events not very remote from diminishing it in the contrary proportion, or reducing it from 40*s.* to 39*s.* 8*d.* But if the price would fall by 4*d.*, a saving of 3*s.* 7½*d.* will be too little; and the saving, to produce the effect described, must be more nearly one-eleventh of 39*s.* 8*d.* and fourpence more, or 3*s.* 11¼*d.* If instead of 4*d.* the price would fall by 2*d.* or by 8*d.*, it would only make an alteration of nearly coincident amount in the magnitude of the saving required.

quarters to be produced. But at the same time that these five quarters were being produced by an annual outlay of 9£. 0*s.* 3¾*d.*, the annual outlay necessary to bring the other 600 quarters to market would be reduced from 1000£ to 881£. 17*s.* 6*d.*;—making the whole final outlay 890£. 17*s.* 9¾*d.*, and the final receipts, at 39*s.* 8*d.* per quarter, 1199£. 18*s.* 4*d.* But the portion of these receipts which is necessary to replace 890£. 17*s.* 9¾*d.* with a profit of 10 per cent, is 979£. 19*s.* 7*d.* A tenant may therefore be found who will agree to lay out 890£. 17*s.* 9¾*d.* on condition of retaining 979£. 19*s.* 7*d.* out of the proceeds, and pay the residuum as rent. Hence if the land-owner chuses to let his estate, 219£. 18*s.* 9*d.* is what, under the new dynasty of threshing-machines, he may obtain for rent.

If the improvement was of the second kind, and if it demanded, for example, on the estate supposed, an additional outlay of 100£ per annum,—the first thing which may be remarked is, that it would not take place at all unless the addition made by it to the value of the produce would be at least 110£ per annum. If the addition was exactly this, then the rent would remain unaltered, and the amount of the farmer's yearly profits would be increased by 10£. But if it was more, as for instance 125£ per annum, then 15£ would be added to the annual rent as soon as the landlord had the opportunity of appealing to the competition in his favour, and the amount of the farmer's yearly profits would be increased by the other 10£ as before. In other words, the whole of the gain would be added to the rent, except the portion required to pay the necessary profits of the tenant on the additional outlay. If the use of the improved method induces any further changes in the addition that can be made to the outlay so as to be returned with a living profit on the sum added, they must be accounted for separately.—As the direct effect of this species of improvement is to create an increase in the produce, its tendency is to create a comparatively great reaction on the price of corn. No correction however is required on this account; because when the addition to the value of the produce is supposed to be 110£ or any other sum, this includes all reactions.

The effect, then, of all agricultural improvements is to increase the quantity of produce and lower its price; but improvements which consist in a saving of expense, do this in a much less degree than those which require an augmented outlay. Improvements of the first kind diminish the quantity of capital demanded from the tenant, and consequently the final amount of the profits that will be left him; improve-

ments of the latter kind increase both. In improvements of the first kind, the landlord finally obtains the whole of the gain, and a part of what used to be the profits of the tenant besides. In those of the latter kind, he obtains only that part of the gain which is left after paying the increased amount of profits of the tenant. An improvement of this last kind is always advantageous to the tenant; and, except in the lowest class of cases where nothing is left after paying the necessary profits of the tenant, to the landlord also. An improvement of the other kind is always very advantageous to the landlord; but it is against the tenant, in the same way as a diminution in the quantity of capital that can be employed with a profit is against any other dealer;—in the same way, for example, as the introduction of cabriolets with one horse is against the interest of the dealers who have been accustomed to convey single passengers in coaches with two. In the instance of cabriolets, it is possible that the difference may be made up to the dealers, by the increased number of persons who are induced to ride. But this is not the case with the tenants; because their profits on the additional quarters produced, are not equal to the diminution of profits arising out of the diminution of capital employed on the remainder.

The phenomena attendant on the rent of land in general, will be found to correspond precisely with those which attend on the rent of the vineyard that produces Tokay; and great clearness will result from attention to the magnified case. More particularly light is thrown on the cause of the principal phenomenon, which is the permanence of the excess of the price of the aggregate produce above the cost of its production. The outlay stops at the point where the last addition to it only creates such an addition to the whole produce, as returns the sum added to the outlay with a living profit on itself; but the nature and constitution of the soil are such, that this does not carry the produce to any thing like what will reduce the price of the whole, to what returns the whole outlay with only a living profit. The last 10£ added to the outlay increases the whole proceeds by no more than, it may be, 11£, and another 10£ would increase it by less; and therefore the outlay stops. But this does not prevent the fact, that the whole outlay may on an average be producing cent per cent, or any greater amount.

Perhaps the subject may be made clearer, by considering what the case would have been, if no addition to the outlay would have increased the produce of the vineyard at all. There is no natural impossibility in such having been the

fact; and simple ignorance on the part of the cultivators would amount in practice to the same thing. In such circumstances, there would be no addition to the outlay above that of an ordinary vineyard; and yet the aggregate produce would be selling for five or six times the cost of its production. The outlay, for example, might be 1000£; but the produce, instead of selling for 1200£ or 1300£, might sell for 6000£. Suppose now, that instead of the case being exactly thus, an addition of 10£ could be made to the outlay, with the effect of creating an addition to the value of the whole produce, amounting to 11£ or whatever else is considered as 10£ with the lowest living profit. The 10£ would be added accordingly; but the result would still be, that an outlay of 1010£ produced a return of 6011£. And it is because the nature and constitution of the soil are such that *no more* than 10£ can be added to the outlay so as to be returned with a living profit on the sum added, that the whole outlay never overtakes the whole price, or reduces it to the cost of the whole production. If, for example, a second 10£ was added, the constitution of the soil is such that the increase effected in the produce would be worth, it may be, 10£; which is no profit at all. And if a third 10£ was added, the increase in the produce might be only worth 9£; which is a loss of 1£. But no man in his senses, when by laying out 1010£ he can obtain 6011£, will lay out 1020£ to obtain 6021£; still less 1030£ to obtain 6030£. The competition for the produce causes high price; but the high price does not increase the outlay, to any thing like what creates an increase of produce sufficient to reduce the price of the whole to the cost of production.—All these conclusions may be rigidly transferred to corn.

If it is urged that the land which produces Tokay is the case of a vineyard possessing extraordinary properties in comparison of other vineyards, and that there is nothing analogous to this in the case of corn, and therefore the cases are not alike:—the answer is, that if all the other vineyards were to lose the faculty of producing wine, the price of Tokay would only be increased; and the land that produces Tokay would *then* be in the same circumstances with respect to wine, that the corn land of any country where the quantity is limited in comparison with the demand, is in with respect to corn.

On returning to the passages extracted, it will be seen that the first inaccuracy occurs at the words '*when it is necessary*;' the truth being, that land of inferior quality is not taken into cultivation because it is necessary but because it is profitable. The necessity might exist long enough, if it did not make itself intelligible to the cultivator through his purse. And

the inaccuracy is of importance, because it holds of the great aboriginal fallacy of the Theory of Rent. But the inference on which that fallacy is directly built in the passages quoted, is first intimated in the words '*and that payment constitutes rent.*' The payment described *is* rent; but that does not prove that rent is this and nothing else. A ploughman puts his children on their guard against this sophism, by the homely illustration that 'a mare is a horse, but a horse is not a mare.' If he was a logician according to forms, he would tell them that one is the *inclusum*, the other the *includens*, and that these are not interconvertible terms. The fallacy looks out again more confidently in the words '*It follows that*' &c; and in the next paragraph it is embodied into 'a general expression,' in which rent is stated to be the difference between the greatest and least returns, instead of stating that the difference between the returns, *when circumstances happen to be such as to produce a difference of returns at all*, will be equal to the rent.

If it is urged that both the present writer and his original have distinctly represented the cultivation of the inferior soils as flowing from the appropriation of land and the limitation of its quantity, and that to affirm that rent proceeds from the secondary cause is tantamount to affirming that it proceeds from the first,—the answer is, that it is one thing to affirm that the competition is the simple cause of rent in all cases, and would equally cause it if no difference of qualities, and no knowledge of the art of forcing crops, were in existence,—and another thing to affirm, that it causes rent through the intervention of these circumstances, and would not cause rent without them. The consequences into which this discrepancy branches out, will be seen in the sequel.

It may be useful to go through such passages in the Theory of Rent delivered by its original propounder, as are at variance with the principles deduced in what has preceded.

Rent invariably proceeds from the employment of an additional quantity of labour with a proportionally less return.—*Principles of Political Economy and Taxation. By David Ricardo, Esq.* p. 58.

The aboriginal fallacy of the Theory of Rent. An additional quantity of labour will be employed because prices have risen, which at the same time raises rents; and not rents rise because more labour is employed.

It is true, that on the best land, the same

The value of one man's produce is not enhanced because the returns obtained

produce would still be obtained with the same labour as before, but its value would be enhanced in consequence of the diminished returns obtained by those who employed fresh labour and stock on the less fertile land.—*Ricardo.* p. 61.

by another man in less favourable circumstances are smaller than his own; for the tendency of the latter individual's creating new produce at all, is to reduce the price of produce, not increase it. But the price of all agricultural produce is first enhanced from an extrinsic cause, namely the increase of competition among the purchasers; and this enhancement makes it profitable for the last man to produce, in spite of the partial reaction created by the appearance of his new produce in the market.

The reason then, why raw produce rises in comparative value, is because more labour is employed in the production of the last portion obtained, and not because a rent is paid to the landlord.—*Ricardo.* p. 62.

Tokay does not rise in comparative value either because more labour is employed in the production of the last portion obtained, or because a rent is paid to the landlord. It rises in consequence of the increase of the demand for it, compared with the quantity that can be supplied; and *then* it becomes profitable to employ a certain quantity of additional labour in the production of a new portion of produce, and the rent is raised at the same time.

The value of corn is regulated by the quantity of labour bestowed on its production on that quality of land, or with that portion of capital, which pays no rent.—*Ricardo.* p. 62.

The value of corn is not regulated by this, but does itself regulate the quality of land, and the portion of capital, that can be brought into action with a profit.

The inverted proposition as given opposite, amounts to saying, that the price of corn is regulated by the cost for which it can be produced on the last quality of land, or with the last portion of capital, that can be brought into activity *with a living profit at the going price.* Or in other words, that the price is regulated by the price; which is reasoning in a circle.

Nothing is more

Among the properties here assigned

common than to hear of the advantages which the land possesses over every other source of useful produce, on account of the surplus which it yields in the form of rent. Yet when land is most abundant, when most productive, and most fertile, it yields no rent; and it is only when its powers decay, and less is yielded in return for labour, that a share of the original produce of the more fertile portions is set apart for rent.—*Ricardo.* p. 62.

as the causes of no rent, the property of abundance, or of unappropriated land not having begun to be scarce, is the only effective one. The rise in the price of agricultural produce, at one and the same time raises rent, and makes it practicable to cultivate land less fertile or whose powers have decayed. But there is no foundation for the inverted proposition, that it is only when the powers of land decay, that there will be rent. It is however quite true, that land possesses no advantages over other sources of useful produce on account of its yielding a rent; for all that is given to one, is taken from another. The overlooking this, appears to have been the error of the *Economistes.*

If air, water, the elasticity of steam, and the pressure of the atmosphere, were of various qualities; if they could be appropriated, and each quality existed only in moderate abundance, they as well as the land would afford a rent, as the successive qualities were brought into use.—*Ricardo.* p. 63.

When air, water, &c. can be appropriated and the supply is limited in proportion to the demand, they *are* made the subjects of rent; without any reference to the existence of various qualities. A gaoler who should take bribes for the luxury of breathing a freer atmosphere, would receive rent for air. And if a walk on the roof sold for half-a-crown, while putting the head out of window was only sixpence,—he would have been equally able to obtain the half-crown, if his gaol had happened to have no windows at all. It is the high price of fresh air altogether, that makes the window sell for sixpence; and not the window selling for sixpence that makes the roof sell for half-a-crown.

With every worse quality employed, the value of the commodities in the manufac-

If manufacturers can afford to purchase a less efficient material at the same price as they used to purchase a better, it must be because the demand

ture of which they were used would rise, because equal quantities of labour would be less productive.—*Ricardo.* p. 63.

for the articles finally manufactured has raised their price sufficiently to prevent loss; and not the price rise because less efficient materials have been employed.

If the surplus produce which land affords in the form of rent be an advantage, it is desirable that, every year, the machinery newly constructed should be less efficient than the old, as that would undoubtedly give a greater exchangeable value to the goods manufactured, not only by that machinery, but by all the machinery in the kingdom; and a rent would be paid to all those who possessed the most productive machinery.—*Ricardo.* p. 64.

This appears to be only an expansion of the proposition conveyed in the preceding extract.—It is however quite true, that there is no advantage in the aggregate, from the fact that land affords a rent.

The rise of rent is always the effect of the increasing wealth of the country, and of the difficulty of providing food for its augmented population.—*Ricardo.* p. 65.

It is the effect of the last alone. It is true that the necessity for giving an increased quantity of manufactured goods in return for agricultural produce, which raises rent, will at the same time increase the national wealth; because it implies the production of an increased quantity of useful commodities. But the rise of rent and the increase of the national wealth, proceed from a common cause; not one from the other.

Rent increases most rapidly, as the disposable land decreases in its productive powers.—*Ricardo.* p. 66.

It would increase still more rapidly, if there was no disposable land with any difference of productive powers at all. The less is the produce of the belt

of land which is so circumstanced as to be called into activity by any particular increase of price, the less will be the magnitude of the reaction upon price and rent; and it will be least of all, if the belt of land happens to be none. The relation between rent and the productive power of the disposable land, is one of opposition, not of concatenation. It is of the same kind as the relation between the water in a reservoir and a leak. The accumulation of water increases most rapidly, as the leak decreases. To infer that the existence of the leak is essential to the accumulation, would present a fallacy like that conveyed in this part of the Theory of Rent.

Wealth increases most rapidly in those countries where the disposable land is most fertile, where importation is least restricted, and where through agricultural improvements, productions can be multiplied without any increase in the proportional quantity of labour, and where consequently the progress of rent is slow. —*Ricardo.* p. 66.

The effect of agricultural improvements, in all cases, has been shown to be, not to retard the progress of rent, but to promote it.

But *that* corn which is produced with the greatest quantity of labour is the regulator of the price of corn.—*Ricardo.* p. 67.

The aboriginal fallacy again. The corn which is produced with the greatest quantity of labour does not regulate the price of corn, but the price of corn determines what is the greatest quantity of labour that can be profitably expended on producing corn.

Adam Smith, therefore, cannot be cor-

Adam Smith knew, that the limitation of the land, as soon as the time

rect in supposing that the original rule which regulated the exchangeable value of commodities, namely the comparative quantity of labour by which they were produced, can be at all altered by the appropriation of land and the payment of rent.—*Ricardo.* p. 67.

arrives when the population begins to press against the production, introduces a new element of the exchangeable value of the produce, namely that of monopoly price. Under a monopoly where the quantity of produce is necessarily limited, the question is no longer how much it cost in producing, but how much the competition among the purchasers will induce them to give. Tokay does not cost more in producing than any other wine; or at all events not more in proportion to the price. But it sells for a great deal more, because the supply is limited and the competition great; and the difference becomes rent.

To say the value was regulated by the cost because it was regulated by the cost of the last portion produced,—would only be a quibble, even if the latter part was true. For the question is, why the *whole or average* produce of one kind of commodity sells only for the average cost of production including a living profit; and of another for four or five times as much.

Adam Smith, therefore, was right.

Raw material enters into the composition of most commodities, but the value of that raw material as well as corn, is regulated by the productiveness of the portion of capital last employed on the land, and paying no rent;—*Ricardo.* p. 67.

The incorrectness of this has been shown, in what has been said of corn.

and therefore rent is not a component part of the price of commodities. — *Ricardo.* p. 67.

If this means that rent is not the cause of the price of the produce or of any part of it, it is true; but not for the reason assigned. The reason is, because the price of Tokay is the cause of

the high rent of the vineyard, not the rent the cause of the high price of Tokay.

At the same time there is no objection to the ordinary sense in which rent is said to be a component part of the price of a commodity; meaning only that the price of some of its component parts is a monopoly price or one that affords a rent. The two senses are different; and must not be confounded.

—and we have seen, that with every portion of additional capital which it becomes necessary to employ on the land with a less productive return, rent would rise.—*Ricardo.* p. 68.

The aboriginal fallacy again. The price of produce rises first, and determines what addition of capital can be employed with a profit; and at the same time raises rent.

It follows from the same principles, that any circumstances in society which should make it unnecessary to employ the same amount of capital on the land, and which should therefore make the portion last employed more productive, would lower rent. —*Ricardo.* p. 68.

Any saving in agricultural processes is such a circumstance; and agricultural savings do not lower rent, but powerfully increase it. The error arises, as before, from attributing the production of rent to a wrong cause.

Any great reduction in the capital of a country, which should materially diminish the funds destined for the maintenance of labour, would naturally have this effect.—*Ricardo.* p. 68.

It would lower rent; but it would be because it diminished the power of the competitors to bid, and consequently the price of corn.

The same effects may however be produced when the wealth

The effects of agricultural improvements upon rent, have been shown to be of a contrary nature.

and population of a country are increased, if that increase is accompanied by such marked improvements in agriculture, as shall have the same effect of diminishing the necessity of cultivating the poorer lands, or of expending the same amount of capital on the cultivation of the more fertile portions. —*Ricardo.* p. 69.

If a million of quarters of corn be necessary for the support of a given population, and it be raised on land of the qualities of No. 1, 2, 3; and if an improvement be afterwards discovered by which it can be raised on No. 1 and 2, without employing No. 3, it is evident that the immediate effect must be a fall of rent; for No. 2, instead of No. 3, will then be cultivated without paying any rent; and the rent of No. 1, instead of being the difference between the produce of No. 3 and No. 1, will be the difference only between No. 2 and 1. With the same population, and no more, there can be no demand for any additional quantity of corn; the capital and labour employed on No. 3, will be devoted

If a million of quarters be raised on land of the qualities of No. 1, 2, 3, and an improvement in agriculture subsequently takes place, the effect will be that there will be some increase of produce on 1 and 2 and 3, and some reduction of price in consequence; and the landlord will every where take all that remains after paying the necessary profits of stock, for rent. With the same population and no more, there can be no demand for any additional quantity of corn *at the same price as before*; but there will, at a reduced price. Men economize in the use of corn, as of every thing else, when it is dear, and use it more liberally when it is cheap; and to say they do not, is only the fallacy of saying *some* men do not. If it was not so, it would be impossible to get through a scarce year, or to consume all the corn that is produced in one of extraordinary plenty. The nature of effectual demand is entirely overlooked.

to the production of other commodities desirable to the community, and can have no effect in raising rent unless the raw material from which they are made cannot be obtained without employing capital less advantageously on the land, in which case No. 3 must again be cultivated.—*Ricardo.* p. 69.

But improvements in agriculture are of two kinds: those which increase the productive powers of the land, and those which enable us to obtain its produce with less labour. They both lead to a fall in the price of raw produce; they both affect rent, but they do not affect it equally.—*Ricardo.* p. 70.

Their effect on rent is of a nature directly contrary to what is intended to be stated. They both increase it.

If, by the introduction of the turnip husbandry, or by the use of a more invigorating manure, I can obtain the same produce with less capital, and without disturbing the difference between the productive powers of the successive portions of capital, I shall lower rent; for a different and more productive portion will be that which will form the standard from which every

The aboriginal fallacy again. Landlords may be asked whether turnip husbandry and invigorating manures have lowered rent. If they had, landlords would have been seen forming, not a Board of Agriculture, but a Board for the Suppression of Turnips and the Prevention of Manure.

other will be reckoned.—*Ricardo.* p. 72.

— but since the same cause, the difficulty of production, raises the exchangeable value of raw produce, and raises also the proportion of raw produce paid to the landlord for rent, it is obvious that the landlord is doubly benefited by difficulty of production. First he obtains a greater share, and secondly the commodity in which he is paid is of greater value.—*Ricardo.* p. 75.

In the case of a monopoly like that, for example, of the vineyard which produces Tokay, an increase of the difficulty of production cannot raise the exchangeable value of the produce; because that is raised already, above the height which would be assigned by the difficulty of production. The difficulty of production only diminishes the quantity of gain which will remain with the owners of the monopoly. In the same manner in the case of other agricultural produce, the difficulty of production cannot raise the exchangeable value, as long as there is a monopoly gain or rent which can be taken from the landlord. Neither can it raise the proportion of the produce left to the landlord for rent; for, as in the case of Tokay, it evidently diminishes it. The assertion made to the contrary, is only the aboriginal fallacy repeated.

The idea of having discovered a new principle for the determination of Rent which among other qualities has that of being independent of the rate of profits of capital, leads to what is presented as a discovery of the regulating principle of Profits. Rent, it is urged, has been discovered to be a thing of fixed and determinate magnitude, depending on something in the decreasing qualities of land, and 'independent of the general result of the productive powers of labour and capital'*; —Wages, 'depend on the proportion between population and capital'†;—and these two being settled, 'it is evident that the portion which remains is Profits‡.' That 'wages depend on the proportion between population and capital,' is tantamount to saying, that the greater share a man gets, the richer he will be. But it is never stated why the proportion between population and capital is different at one time and place from what it is at another, or what it is that induces such a condition of things as makes the shares different. To state how things vary, is not to state their absolute magnitude; for one may be

* Mill. p. 85. † Ib. p. 41. ‡ Ib. p. 68.

indefinitely great and another indefinitely small, and still both vary after the same law*. A labourer in Ireland will live and bring up a family upon potatoes; a labourer in England will see the world unpeopled first. Why does not the labouring population in England increase till wages are reduced to the same condition as in Ireland; or why is not the population in Ireland diminished till it bears the same proportion to capital as in England? This is the question that wanted answering; and the answer would have pointed to another element essential to the determination of both Wages and Profits, and whose existence is incompatible with the solution advanced. And this element, as long since pointed out by Adam Smith, is the force of opinion and habit. Englishmen have the physical capability of living on potatoes as much as other men, but fortunately they have not the habit; and though it might be wrong to say they would starve first in their own proper persons, they will utterly refuse to multiply upon such diet, the effect of which on population is ultimately the same. And the causes of these differences of habit, are to be found in every thing that has affected the past or affects the present condition of society,—in ancient institutions, in modern improvements, in past and present laws, in battles lost and won, in reformations of religion, in the progress of science, in the manners of the higher classes, in the information of the lower, in every thing which man can neither suddenly alter nor create, and which connects his present mode of existence with that of his ancestors and his posterity. Fluctuations will be perpetually taking place in the existing proportion between population and capital; but the element which, in the midst of these, keeps the average rate of wages to one point and not to another, or which determines the point to which wages shall tend as to a mean, is not physical but mental. There may be a lowest physical point somewhere; but happily all civilized, and most uncivilized nations, are considerably above it. The New-Hollander may approach the lowest physical point, when he feeds on worms; but this has no bearing on the question why one man lives on beef and another on potatoes, for both diets are happily far removed from that of the New-Hollander. The Englishman will not live and bring up a family upon potatoes; because, though he may consent to live on them when

* In the language of algebra, x and X may both vary as $\frac{y}{z}$; but to know any thing about the absolute magnitude of x, it is necessary to know that $x = A \times \frac{y}{z}$. The manner of living imposed by habits and opinions, is the missing A.

he can positively procure nothing else, habit, custom, the opinion of those around him, have made it in his eyes contemptible, irrational, absurd, for a man to be living on potatoes when he has the opportunity of getting any thing better. In his hours of prosperity therefore, he will to a certainty solace himself with bacon, and most probably venture upon beef; and as this absorbs a greater portion of his income in what he views as necessary to his individual existence, it proportionally reduces his disposition to burthen himself with new mouths. If the Irishman had the prospect of all this bacon and beef, he would view it as convertible into potatoes for a family like a patriarch's. The Englishman thinks it but decency to swallow all, and omits the family.

And as opinions and habits determine the final or average proportion which shall be maintained between the numbers of the labouring population and the funds for their support, or in other words determine the average rate of Wages,—so they also determine the average rate of Profits of Stock, which are only the wages of another description of labourers, consisting partly of the recompense of present labour exerted in the form of superintendence, and partly of the recompense of past labour exerted in the creation of their capital*. Public opinion and custom require, for example, that a shopkeeper shall wear a good coat,—shall drink at all times malt liquor and sometimes wine, and give them to his neighbours,—that his wife and daughters, if he has any, shall wear clean linen, and moreover not wash it themselves,—and that when they travel, it shall be by the stage-coach and not by the waggon. Though he may do without some or other of these things in a certain degree when necessity presses hardest, he cannot and will not do without them in the main. If therefore he is a man of foresight, he will at all events defer adding to the population of shopkeepers, till he sees a fair prospect of supporting a family in the way which public opinion pronounces to be respectable. But if he engages in it without foresight, he

* This last part, is the recompense spread over the greatest possible space. If it was proposed to a savage hunter to give a hundred of his deer for a gun, for the sake of the additional deer which his hunting would by means of it obtain for him in future,—if the gun would last only one year, he must expect from it a hundred additional deer within the year, and something more. If it would last two years, he might be content with the prospect of 60 a year, the difference being a compensation for the delay; if four, with 40; if eight, with 25; and if it would last for ever, or for a time to which he sees no end, he might be induced to consent by the expectation of 6 or 8. But in all these cases, what he expects, is the recompense of the labour expended in procuring the hundred deer, spread over a larger space.

will keep down the population of shopkeepers in another way; for he will break. Bankruptcy is the check to the indefinite multiplication of traders, as the evils arising from diminished food are the check to the indefinite multiplication of the lower classes of labourers. In the same manner if the higher order of traders would, or could, do without a certain rate of expenditure, they might remit something of their rate of profits. If a great brewer, for example, would drive his family to the two-shilling gallery in one of his own drays,—or a banker be content, as in India, to sit on a mud floor in the shop of his forefathers, and retire to swallow rice with the condiment of ghee,—there would be some chance of the thing being brought to pass. But 'the crowning city' has determined, that her merchants shall be princes, and her traffickers the honourable of the earth; and they neither can, nor will, resist the award. The opinion of society therefore, is what in the long run determines and keeps up the rate of recompense in this class as well as in the other; and, though there may be individual exceptions, men in general will break, sooner than not live up to what is expected from them. The difficulty is not in finding men who will live up to this mark, but in finding men who will live within their means. The profits of stock, like wages, may be momentarily elevated or depressed by the fluctuations in the proportion between the business to be done and the men who are to do it. When business is scarce, the competition may to a certain degree induce traders to do it at a cheaper rate; and the contrary. But if the scarcity of business is permanent, traders will begin to go out by the horn gate of bankruptcy, and so the balance will be preserved.

The Section on 'Exchangeable Value' omits all notice of commodities produced under a monopoly, or for which the competition causes more to be given than repays the whole expenses with a living profit. Agricultural produce comes notoriously under this description; for the price not only pays the expenses and profits of the cultivator, but a rent besides.

'Cost of production, then, regulates the exchangeable value of commodities.'—*Mill*, p. 93.

This is only true in one direction. The exchangeable value of a commodity of ordinary consumption cannot long continue to be *less* than will pay the cost of production including the necessary profits; but it will be *more*, to an extent limited only by the circumstances of the particular case, whenever the competition increases the price faster than the outlay increases the produce.

If there is any truth in the account that has been given of

the origin and progress of Rent, an immediate corollary from it is, that *taxes upon the land fall on the landlord.* For if the land-owner united the characters of landlord and cultivator by keeping the land in his own hands, the charge must fall upon him; and what he cannot keep himself, he can never recover from others by the invention of selling it to them with their eyes open.

If it is urged that such land-owners might recover the tax from the consumers, by raising the price of corn,—the answer is, that the operation of their individual interests will prevent it. If they raise the price of corn, it is manifest that less must be sold. A high price spins out the consumption of a deficient harvest, and would cause only a portion of the same magnitude to be consumed out of a plentiful one. But none of the land-owners would place so much confidence in the union among his brethren, as either to throw away corn already in his barns, when he had the option of selling it,—or to refuse to grow it, when by the sale of it he could obtain what he considers as a reasonable profit. The quantity of corn grown and sold, therefore, will not be diminished by any such combination; and if the quantity is not diminished, the price for which it is sold cannot be increased. If there was no monopoly gain, the case would be very different indeed. For then the tax would oblige the land-owners to contract their growth, till the price rose to what would pay them for their trouble; in the same manner as other producers do in similar circumstances. And the land-owners themselves will actually do this, with respect to that portion of their produce which will not pay them the necessary profits of stock.

If it is suggested that the landlord may raise the price by throwing the necessity upon the tenants, it is not difficult to see that the tenants will be equally unable to compass the end desired. To put the strongest case, let it be supposed that all the landlords resolve not to abate a fraction of rent on account of the tax, and that all the tenants have been previously bound by long leases which leave them no alternative but that of recovering the tax from the consumers or losing the amount. The tenant then, has made an improvident bargain by which he is likely to lose the amount of the tax for several years, unless it can be recovered from the consumers. But this will not produce in him any inclination to throw more away after it, either by omitting to sell corn which is in his barns, or by omitting to grow it to the utmost that will pay him a living profit upon the last sum added to the outlay. The outlay and the produce will therefore be the same as if the land-owners had held the land in their own

hands; and consequently, as before, the tax will not be recovered in the price. The tenants therefore must put up with the loss, till they have the opportunity of recurring to the fair competition between landlords and tenants, when the tax will be thrown upon the landlords; for it is impossible that any resolutions of the landlords should induce the tenants to go on accepting less than a living profit.

The way then to determine the effect of any tax or charge upon land or agricultural produce, is to see what the effects would be upon land-owners uniting the characters of landlord and cultivator, and what alterations would be made in the bargain which they would have to offer to the competition among tenants.

By the application of this principle, it will appear, that the Section on 'Taxes on Rent' (Mill, p. 248.) is right in the conclusion delivered, but not for any reason that is there stated. The inability of the landlords to protect themselves by throwing the tax upon the tenants, who pertinaciously refuse to starve upon less than a living profit;—the inability of either landlords or tenants to raise the price of corn for their own convenience and throw the tax on the consumers;—are the reasons why taxes on rent, whether levied from the person of the landlord or of the tenant, must fall upon the landlord.

The Section entitled 'A Tax on Profits' presents the following results.

'A direct tax on profits of stock offers no question of any difficulty. *It would fall entirely upon the owners of capital, and could not be shifted upon any other portion of the community.*

As all capitalists would be affected equally, there would be no motive to the man, engaged in any one species of production, to remove his capital to any other. If he paid a certain portion of his profits, derived from the business in which he was already engaged, he would pay an equal portion, derived from any other business to which he could resort. There would not, therefore, in consequence of such a tax, be any shifting of capital from one species of employment to another. The same quantity of every species of goods would be produced, if there was the same demand for them. *That there would on the whole be the same aggregate demand, is also immediately apparent.* The same capital is supposed to be employed in the business of production, and if part of what accrued to the capitalist was taken from him, lessening to that extent his means of purchasing, it would be transferred to the government, whose power of purchasing would be thence to the same degree increased.'—*Mill*, p. 256.

The Profits here meant are manufacturing profits, as distinguished from agricultural; for 'Taxes on the Profits of

the Farmer' form the subject of a subsequent Section. It may however be useful to consider the two kinds in a different order.

When there is a monopoly gain behind, as there is in the case of agricultural profits, it will be found by application to the case of a land-owner uniting the characters of landlord and cultivator, that the effects of a tax on profits, upon the cultivator, will be the same as those of a reduction of price. On the landlord the effects will in the first instance be, that the tax on the final amount of the cultivator's profits will be taken out of the rent. But at the same time there will be a reaction on the price of corn in the way of increasing it, in consequence of the partial diminution of produce; and of this increase of price the landlord will have the benefit. To recur, for example, to the case formerly taken,—If corn was at 55*s.* and a tax of 20 per cent was imposed on the profits of the capital employed, the first approximation to the result would be, that the cultivator instead of cultivating all the land and making all the outlay that would return him 10 per cent, would stop at that which would leave him 10 per cent after payment of the tax, or which would return him in the first instance 12½. The effects of this on the outlay, on the amount of the cultivator's profits, and on the quantity of produce, would be the same as those of a reduction of the price of corn from 55*s.* to 44*s.*; for it would be the same thing in respect of the last 10£ added to the outlay, whether what was received for its produce was reduced one fifth by a tax, or by corn falling one fifth. The outlay would therefore be reduced from 1020£ to 1010£, the annual amount of profits from 102£ to 101£, and the produce from 609 quarters to 605. The price received for the 605 quarters at 55*s.* would be 1663£. 15*s.*; so that after deducting 20£. 4*s.* for the tax on 101£, the final receipts of the individual combining the characters of landlord and cultivator would be 1643£. 11*s.* And since what he could dispose of to a tenant would be simply the opportunity of making the outlay of 1010£ with the condition of retaining 1111£ out of the proceeds, what would remain to him in the shape of rent would be 532£. 11*s.*, instead of 552£. 15*s.* as it was before;—or the rent would be diminished by 20£. 4*s.*, which is the tax. But to all this there must be applied a correction, for the reaction on the price of corn created by the general diminution of produce which arises from the tax and is represented in this particular case by four quarters. If on an estimate like that formerly entered into in a note, the amount of this reaction might be stated at sixpence per quarter, the price of corn instead of 55*s.* would be 55*s.* 6*d.* And the

effect of this increase of price would be in a small degree to increase the outlay, the amount of profits, and the produce. But the principal effect, neglecting inconsiderable fractions, would be, that the price of the 605 quarters would be increased by sixpence a quarter or 15*£*. 2*s*. 6*d*., which would be added to the rent. A further correction might be made by calculating the effect of the small increase of produce last mentioned upon prices, and similar corrections might be extended to an indefinite number; but their amount would be insignificant. The corrected rent therefore may be stated at 547*£*. 13*s*. 6*d*.

What in the case of a tax on profits makes the result so little prejudicial to the landlord, is that the reaction upon prices, and its effect in raising rent, are the same as if the rate was levied on the whole produce; while the actual levy is only on the profits. Thus in the case assumed, the reaction upon prices is as great as would have been caused by a tax of one fifth, or a double tithe; while the sum taken by the tax, or what falls on the other side of the landlord's account, is less than an eightieth, or than the eighth of a tithe. And what is thus saved by the landlord, is at the expense of the consumers.

There remains the case where there is no monopoly gain behind; or in other words the case of a tax on manufacturing profits. And here it is evident, that if the tax on the profits of the capitalists amounted, for example, to nine tenths, the capitalists would not live upon the tenth without doing all in their power to throw the loss on other persons. It lies therefore on the affirmant to prove, that they *can* throw the tax on nobody else.

If the difficulty of bringing silver from the mine, should, from the failure of the mines or other natural causes, be increased till it approached to the difficulty of procuring gold, —the producers of silver, if there was no monopoly gain behind upon which the difference could be thrown, must of necessity raise its price, and consent to the diminution of the extent of their sales which would be the consequence. For nothing can continue to be produced and sold, for less than what will replace, with a living profit, the payments that must be made by the producer. But precisely the same effects would follow, if the increased difficulty of bringing silver to market arose from a tax instead of a natural impediment. For example, if what the capitalists accounted a living profit was 10 per cent, and the tax amounted to 20 per cent on their profits, the capitalists, to live, must demand the prices which would leave them in the first instance 12½ per cent instead of

10,—or, for the silver which costs them 100£ and which they used to sell for 110£, they must now ask 112£. 10*s.* And the effects of this on the quantity of silver produced and sold, would be the same as if the necessity for selling the silver for 112£. 10*s.* instead of 110£, had arisen from its costing ten elevenths of 112£. 10*s.*, or 102£. 5*s.* 5½*d.*, instead of 100£,—or as if from natural causes the difficulty of producing silver had been increased by ten elevenths of 2½, or $2\frac{3}{11}$, per cent.

If the tax instead of being confined to the profits of the producers of silver, extended to manufactures in general, the same consequences would ensue in all; or the prices of all the commodities must be raised to the point which would give the producers their living profits after deducting the tax. The producers before demanded such prices as left them 10 per cent, and no business was done without it; and for the same reasons and by the same processes that this took place with respect to the 10 per cent, it would take place with respect to the 12½, when the 12½ was made the lowest by which men could live. And the effect of this on the production and consumption of manufactured goods in the aggregate, would be the same as if an ordinance of nature had suddenly determined that the difficulty of every kind of operation connected with manufactures should be increased by $2\frac{3}{11}$ per cent; for the prices at which the goods could be sold, and consequently the quantities finally sold and consumed, would be the same in the two cases. But of such a physical visitation, the consequence would be, that of a given quantity of manufacturing industry and intelligence exerted by the community, the produce would in the aggregate be diminished in the proportion of 100 to $102\frac{3}{11}$. The consequence, therefore, of the tax would be the same; in addition to the abstraction of the tax.

Under such a visitation, the labouring classes would proceed to bring about a return to the same substantial rate of wages as before, by their painful but irresistible resource of reducing their numbers. But though they could by this method effect a return to the same rate of wages, they could not effect a return to the same quantity of employment at that rate. Their numbers, therefore, must finally be diminished.

The manufacturing capitalists would go on increasing their prices, though at the expense of diminishing their sales, till they secured to themselves their living rate of profits as before. But, like the labourers, though they secured to themselves the substantial enjoyment of the same rate of profits, they could not secure the same quantity of profits at that rate; for they can never get over the fact, that there is a positive diminution of the production and consumption of the commu-

nity. Hence the number of persons engaged in trade must be finally diminished also; either by men's abstaining from adding to the population of traders, or by the shorter cut of bankruptcy.

On comparing the effects of a tax of 20 per cent on manufacturing profits with those of a tax of 20 per cent on agricultural profits as stated in a former place, it will be perceived that the loss or prevention of production is of very different comparative magnitude in the two cases. In one, it is necessarily equal in value to the tax; and amounts, in the instance stated, to about $2\frac{3}{11}$ per cent on the whole produce. In the other, it depends on the accidents of there being land which will be thrown out of cultivation, and outlay which will be cut off; and its absolute magnitude in the instance stated amounts to less than $\frac{2}{3}$ per cent on the whole produce, being to the percentage in the other case nearly as 2 to 7. The difference between the effects of taxes on agriculture and on manufactures, will be further illustrated on arriving at the case of Tithes.

A tax on the profits of manufacturers, then, will be taken by the government once, and there will be an additional loss or prevention of an equivalent quantity of production besides, which will be lost to the community without advantage to the government or any body else, in a manner analogous to what would be the result of a deterioration of the powers of nature. The tax falls on the consumers, and the gratuitous loss on the capitalists and labourers. And this last gratuitous loss is measured by, and is in fact identical with, the losses arising to the manufacturing capitalists and labourers from the diminution of the extent of their business.

The assertion that there would on the whole be the same aggregate demand, points to an inaccurate notion of demand. Demand is spoken of as if it was something to which all other things must bend,—as if men began by determining that they *must* and *would* have a certain quantity of commodities, and the consequence was that they had it. Whereas the truth is that effectual demand,—the demand of those who are willing to pay the whole of the expenses and profits necessary for bringing the commodity to market,—is a floating or variable quantity, that alters with every change of price or variation in the facility of production. It is by means of this connection between the increase of price and the diminution of effectual demand, that a deficient harvest is made to last till the arrival of the next; and the contrary. In this and other passages, demand appears to be confounded with desire,—or with that kind of demand which, in the language of Adam

Smith, a very poor man may be said to have for a coach and six.

The Section entitled 'A Tax on Wages' omits, as before, to give any reason for their absolute magnitude. And in consequence, much of it is expended in reasoning upon a case which never exists. It is never true physically, that 'wages 'are already at the lowest point to which they can be reduced; 'that is, just sufficient to keep up the number of labourers 'and no more.' It is always true virtually, or including the effects of habit and opinion; with the exception of such temporary fluctuations as, when they are in the way of increase, it may be conceded will be immediately put down by the appearance of a tax. 'When wages are so low as barely to 'keep up the number of labourers, wages must rise to the 'amount of any tax imposed upon them, because there is a 'continual diminution of the supply of labourers till the rise 'is effected.' If this might be construed as alluding to the virtual instead of the physical boundary, the conclusion would to a certain extent coincide with what have been represented as the just inferences with respect to Wages and Profits. Two consequences however remain; both of them contrary to the conclusions of the author. One is, that taxes on the wages of labourers employed in agriculture will in the end be taken from the landlord in the rent. The other, that taxes on the wages of manufacturing labour will be recovered from the capitalists, and finally from the consumers, so far as that will be done by the restoration of the old substantial rate of wages; but that there will still be a gratuitous loss to the capitalists and labourers conjointly, in the shape of a diminution of their business, over and above the loss of the tax by somebody else besides, in the same manner as was noted under the head of Taxes on Profits.

To the recovery of Taxes on Wages from the capitalists Mr. Ricardo has objected, that 'the rise in the price of goods 'will again operate on wages, and the action and reaction, 'first of wages on goods, and then of goods on wages, will be 'extended without any assignable limits*;'—which he represents as an 'absurd conclusion,' that makes 'the principle indefensible.' But the supposition that any absurd conclusion will arise, is founded on inattention to the nature of infinite series. Because a series is endless in its number of terms, it does not follow that its amount is infinite†. If a man was to proceed to calculate all the successive actions and reactions of

* Principles of Political Economy and Taxation.—p. 301.

† The most familiar example is the series $\frac{1}{2} + \frac{1}{4} + \frac{1}{8} +$ &c. *ad infinitum*; which is the foundation of the sophism of Achilles and the tortoise. The sum of the terms *ad infinitum* is equal to 1.

wages and prices upon each other, he might find himself engaged in what mathematicians call the method of approximation; which, though he could never positively arrive at its end, he might carry to as minute a fraction of a farthing as would satisfy the most scrupulous accountant. But there exists a palpable cause which would prevent the effect of these actions and reactions, not only from being infinite—for that they could never be—but from rising above a certain amount. And this cause is, the impossibility of money prices rising above what can be conducted by the circulating medium. The nature of the process is the opposite of that by which an excess of circulating medium causes a depreciation of the currency and increase of money prices. And this process and the other, will go on at the same time without interfering with each other; as the pieces on a chess-board are carried forwards or backwards with relation to one another, though the board and the ship in which it is contained are all the time moving in some direction of their own. On the whole therefore, there is nothing that is absurd; and the error charged upon Adam Smith a few lines further on, resolves itself into the defectiveness of the writer's own conclusion respecting the origin of Rent.

The next Section, entitled 'Direct Taxes which are destined to fall equally upon all sources of income', commences as follows.

'Assessed taxes, poll taxes, and income taxes, are of this description. After what has been said, it is not difficult to see upon whom, in each instance, the burden of them falls.

In as far as they are paid by the man, whose income is derived from rent, or the man whose income is derived from profits of stock, the burden of them is borne by these classes. No additional demand arises from the tax; and, *therefore*, neither can landlords raise their rents, *nor capitalists the price of their commodities*.'—Mill. p. 267.

Either the words 'In as far as they are paid by the man' &c. mean 'In as far as the burden of them is finally borne by the man,' &c. which makes a truism;—or it is intended to infer that the burden is borne by certain individuals, because the tax is paid by them in the first instance. If nothing was required towards determining on whom a tax finally fell, but to ask at whose door the tax-gatherer knocked for the amount, the science of taxation would be wonderfully simplified. The assertion that capitalists cannot raise the price of their commodities because no additional demand arises from the tax, exhibits the same inattention as in a former instance, to the nature of effectual demand. If they cannot increase the demand, they can diminish the supply; and they *must* do it, whether the difficulty of production is increased from a physical cause

or from a tax,—or else go on manufacturing with less than a living profit. And at the same time that the price is thus raised, the effectual demand—the demand of those who are willing to pay the expenses and profits necessary for bringing the commodity to market—will not only not be increased, but will be diminished. All this is nothing but what takes place on every occasion of a rise of price from increased difficulty of production.

With respect to 'assessed taxes, poll taxes, and income taxes', the truth seems to be, that such of them as are levied from the landlords, and from individuals who are living upon some kind of previous accumulation without being engaged in trade, will be finally paid by those persons and affect nobody else;—for to the manufacturing and commercial classes, the expenditure of these sums by the government will be the same thing in the aggregate as if they had been left to be expended by the original owners. Such as are levied from agricultural capitalists or labourers, will finally fall on the landlord in the rent; with the comparatively small alterations in outlay, produce, &c. which have been stated. Such as are levied from manufacturing capitalists or labourers, will produce the effects stated under the heads of Taxes on Profits and on Wages; among which the most important, is the gratuitous loss, in the shape of the destruction of employment, which arises in addition to the tax.

The Section upon 'Taxes on Commodities' is true with respect to only one of the two great divisions into which commodities are to be classed; and only partially true with respect to that.

When a tax is laid on any commodity that has not a monopoly gain behind, it rises in price, 'and the dealer or producer is re-imbursed for what he has advanced on account of 'the tax. If he were not re-imbursed, he would not remain 'upon a level with others, and would discontinue his trade.' And if the tax was laid upon all commodities, it would still 'fall upon purchasers'. Such—with the exception of the limitation relating to monopoly produce—are the admissions of the author. It would be curious to know how he convinces himself, that this is true when the tax is demanded from the producer under the title of a tax on his commodities, and would not have been true if the same sum had been demanded from him under the title of a tax on his profits.

The omissions are, First, The distinction into commodities which are produced under a monopoly, and commodities which are not; or in other words into agricultural produce, and what are ordinarily known by the name of manufactured

goods. For in the case of the first kind, the tax will be recovered from the residuary proprietors, who are the landlords.

Secondly, The gratuitous loss or prevention of production, analogous to what would take place from a deterioration of the powers of nature, which will necessarily attend a tax on manufactured goods, in the same way as if it had been levied by an impost of a different proportion upon the profits of the individuals engaged in the production. For example, if the rate of profits be 10 per cent, it will be the same thing whether a tax of 20 per cent is levied on the profits, or a tax of $2\frac{1}{2}$ per cent on the prime cost, or of $2\frac{3}{11}$ on the selling price. The effect of any of which will be, in addition to the payment of the tax, to cause a gratuitous loss or prevention of manufacturing production, amounting to a reduction in the proportion of 100 to $102\frac{3}{11}$.

A tax, therefore, on manufactured goods, is taken by the government once, and there is a gratuitous loss or prevention of production besides, equal in value to the tax. The tax falls on the consumers, and the gratuitous loss on the capitalists and labourers.

On the first of these omissions is founded the fallacy in the next Section, entitled 'A Tax upon the produce of the Land.'

'A tax upon the produce of land, a tax upon corn, for example, would raise the price of corn, *as of any other commodity.* It would fall by consequence, neither upon the farmer, nor upon the landlord, but upon the consumer. The farmer is situated *as any other capitalist, or producer;* and we have seen sufficiently in what manner the tax upon commodities is transferred from him that produces to him that consumes.'—*Mill.* p. 282.

The first fallacy is in the conclusion of the preceding Section *that all commodities are alike.* The next is in the inference, that a tax on corn will raise the price *because it is a commodity.*

What follows is equally remote from being correct. The farmer is *not* situated as any other capitalist or producer; for he precisely differs from them in the capital point of having a monopoly gain at his back from which he may recover. To say that he is situated as any other capitalist or producer, is like saying that a man in a house on fire is situated as a man in a ship;—when the most notable fact about the whole case is, that one has a back-door by which he may escape, and the other has not.

The landlord is equally exempted. We have already seen that there is a portion of the capital employed upon the land, the return to which is sufficient to yield the ordinary profits of stock, and no

more. The price of produce must be sufficient to yield this profit, *otherwise the capital would be withdrawn.*'—*Mill.* p. 282.

The fallacy here is in the assumption that the tenants *can* raise the price of corn, to gratify either themselves or the landlords, and that capital cannot be withdrawn. The tenant must be indemnified for the tax; but not out of the price of corn. A portion of capital *will* be withdrawn; though it will be a comparatively small one. So far is there from being any difficulty in capital being withdrawn, that it is what happens on every diminution of demand. The idea of there being any difficulty in its happening, may be referred to the opinion before mentioned, of the existence of an unalterable demand.

'If a tax is imposed upon produce, and levied upon the cultivator, *it follows that* the price of produce must rise sufficiently to refund the tax. If the tax is 10 per cent or any other rate, upon the selling price, corn must rise in value one-tenth, or any other proportion.'—*Mill.* p. 282.

It follows that *something* must be altered. But it no more follows that it must be the price of produce, when it may also be the rent,—than it follows that because a man's brother is dead it is Thomas, when he has also a brother named John.

The real effects on the landlords and tenants, of a tax on agricultural produce, will, with the exception of a small reaction, be the same as those of a reduction of price of equal amount. To recur, for example, to the case stated before,—If corn was at 44*s.*, and a tax was imposed of 4*s.* per quarter, the first approximation to the result would be, that the outlay would be reduced from 1010£ to 1000£, the produce from 605 quarters to 600, the annual amount of profits from 101£ to 100£, and the rent from 220£ to 100£. For it would be the same thing to the land-holder both in his character of cultivator and landlord, whether a loss of 4*s.* per quarter was occasioned by a reduction of price or by a tax. But the effect of the tax will not be to cause a loss of precisely 4*s.* per quarter; for there will be a certain reaction on the price of corn in the way of increasing it, in consequence of the diminution of produce which arises from the tax and is represented in the particular case by five quarters. If on an estimate like those formerly entered into, the amount of this reaction might be stated at fourpence per quarter, the price of corn instead of 44*s.* would be 44*s.* 4*d.* And the effect of this would be in a small degree to increase the outlay, the amount of profits, and the produce. But the principal effect, neglecting inconsiderable fractions, would be that the price of the 600 quarters would be increased by fourpence a quarter, or 10£; which will be added

to the rent. The corrected rent therefore may be stated at 110£. A further correction might be made by calculating the effect of the small increase of produce last mentioned upon prices, and similar corrections might be extended to an indefinite number; but their amount would be insignificant. The tax therefore, with the exception of the reaction amounting to 10£, is taken from the rent.

On referring to the case of Taxes on Agricultural Profits it will be readily discerned, how much more prejudicial to the consumers would have been the raising of a given sum by a tax of that description, than by a tax on agricultural produce.

The next Section, which is on 'A Tax upon the Profits of the Farmer, and upon Agricultural Instruments,' concludes that

'It would in the first place *raise the price of raw produce*; *because that price is determined by the produce of the capital which pays no rent, and which, if it sustains a tax, must rise like any other taxed commodity, to indemnify the producer.*

In consequence of this rise of price, it would increase the rent of the landlords.'—Mill. p. 284.

This is the great aboriginal fallacy, which assigns the produce of the capital that pays no rent as the regulator of the price of corn, instead of the price being the regulator of the addition that can be made to the capital. There is also the same inattention to the nature of effectual demand, that was formerly noticed. The produce of the capital which pays no rent, if it is to sustain a tax *and continue to be produced*, must rise in price to indemnify the producer. But the fallacy is in assuming that it will continue to be produced; the truth being that the outlay will always stop at the point where the last sum added to it will be returned with a living profit clear of all deductions.

The real effects of a Tax on the Profits of the Farmer, have been shown under the head of Taxes on Profits.

'A tax upon the instruments of agriculture, is the same thing in effect, as a tax upon the profits of the farmer. *It raises the value of produce, without affecting the quantity which goes as rent to the landlord.—Not only, therefore, does the whole of the tax fall upon the consumer, but he is charged with another burthen, the additional rent which is paid to the landlord. The community is taxed, in part for the use of the government, in part for the benefit of the landlords.*'—Mill. p. 285.

If the Tax on Agricultural Instruments is of such a nature that its amount varies in proportion to the magnitude of the produce, it is a tax on produce; and the tax with the exception of a small effect of reaction upon prices will be taken out of

the rent, with sundry small alterations in outlay, profits, and produce. If the amount does not vary at all with the produce, it is a dead charge upon the cultivator, and will be taken out of the rent without affecting any thing else. If it does something between both, the effects will be of some intermediate nature, according to the circumstances of the case.

The next Section is upon 'Tithes and Poor Rates.'

'Tithes are a tax upon the produce of the land; a tenth of the produce, perfectly or imperfectly collected.

The operation, therefore, of this tax, has been already ascertained. *It raises the price of produce, and falls wholly upon the consumer.*'—Mill. p. 286.

That tithes are a tax upon the produce is clear. The consequence therefore will be, that with the exception of a small reaction, they will be taken from the rent; with certain small alterations in outlay, profits, and produce, as before stated. The truth of this or of the opposite representation, depends on the existence or non-existence of a fallacy in the Section entitled 'A Tax on the Produce of the Land.'

The *cheval de bataille* of those who believe that taxes on agricultural produce fall on the consumers, is the malt tax. If a tax is laid on malt, the price of beer rises till the tax is recovered to the dealers; and it would do the same if the tax was laid on barley. What then, they say, so clear, as that the tax falls on the consumers?

The fallacy here is in bringing forward only half the case. If a tax is laid on barley, the quantity of land laid down with barley will be diminished, in such a manner as according to the guesses of the growers will cause the price to rise to what, after paying the tax, will make it as advantageous to grow barley as any thing else. And though the guesses may be rough and imperfect the first year, they will be better in every succeeding year, and will in the end attain to the greatest exactness that can be desired. But if the price of barley is raised through the quantity grown being diminished, the prices of some other kinds of produce must fall through the quantity grown being increased; for the land will be employed in growing something else. The land-owners therefore furnish the tax, and in the first instance recover it from the consumers of barley in the price. But on the other hand they suffer a reduction of the prices of other kinds of produce; which makes a deduction from their recovery of the tax, and a set-off to the consumers of agricultural produce against the increased price paid for the article taxed. The consumers of beer pay a higher price for their barley, and consume less;

but the consumers of wheat or of something else pay a lower price for what they consume, and consume more. There is some loss of business to maltsters, brewers, and publicans; but there is an increase of business to millers, bakers, or whoever are the dealers in the articles whose consumption is increased. And as no man lives on beer alone, the tax will be compensated, at all events in a certain degree, not only to the consumers of agricultural produce in the aggregate, but to every individual consumer of beer also. And if it should turn out in the end, that the aggregate gains of the consumers by the reduction of the prices of other things, are equal to their losses by the rise of barley,—or in other words that they have paid the same sum for the whole produce as before,—the consumers will be just where they were, with the exception of the altered proportions which have been forced upon them, and the land-owners will have furnished the tax without recovery.

In the absence of taxation altogether, the distribution of the land to different kinds of produce would be regulated by the tendency of individual interests to create such a supply of each kind, as would induce a state of relative prices that made it impracticable for an individual to gain any thing by growing more of one kind and less of some other. The question whether in any particular case the land-owners would receive more or less for the whole produce after the natural distribution of crops had been altered by a tax on a particular article, is the same as the question whether they would obtain more or less if it were possible for them to alter the natural distribution by a combination among themselves; and is one to which a general answer cannot hastily be given. But whatever might be the answer in particular cases, it is clear that if the taxation was extended to different articles till it fell on all kinds of produce in such manner as to leave no inducement for altering the relative proportions of different crops, the sum received by the land-owners would be the same as before the tax. For as there would be no inducement to alter the relative proportions, so there would be no general diminution of the growth of all kinds; because it would be prevented by the absence of sufficient union among the growers, as was shown in demonstrating the impossibility of land-holders recovering a tax by raising the price of corn. But if the quantities grown were in all respects the same as before, the sums received for them must be the same; for there is the impossibility just mentioned, that any act or wish of the growers should induce the consumers to give more for a given quantity of produce than they were obliged to by the competition among themselves. The land-owners therefore in such a case, would

receive from the consumers in the aggregate, and from every individual consumer also, the same sum for the same produce as before. But if each and all of the consumers paid the same sum for the same produce as before, the consumers would be just where they were, and the land-owners would have furnished the tax without recovery.

In the case of a general tax either *ad valorem* or in kind like a tithe, the taxation *does* fall on all kinds of produce so as to leave no inducement for altering the relative proportions; and consequently the landlords will furnish the tax without recovery. Whether, therefore, the loss of the landlords and the compensation to the consumers be complete in the case of the taxation of a single article like malt, or not,—they are complete in the case of a general taxation either *ad valorem* or in kind like a tithe.

If, to view the thing in another light, the taxation described is supposed to be extended to the different kinds of produce in succession, each kind will at one period have its price raised and growth diminished in consequence of being taxed itself, and will at other periods be among the kinds whose prices fall in consequence of the increased growth of them which takes place through something else being taxed. In which there is no difficulty in seeing, how the end is to bring the prices and growths of *all kinds* to what they were at first; while at every step a levy equal to the new tax, or at least one which in conjunction with all the successive levies is finally equal to the sum of the successive taxes, is made upon the land-owners.

If the above are the consequences to the land-owners when they keep the land in their own hands, they will equally result when it is let to tenants; as has been proved before.

The difference between a tax on barley and a tax on malt, —if barley was grown only to be made into malt, which is not very far from being the case,—would be that the tax-gatherer would knock at the door of the maltster instead of the grower, and that the grower would deduct the tax from the price paid by the maltster, instead of paying it to the tax-gatherer. And there would further be a small saving to the consumers in the price of malt, in consequence of the maltster not being obliged to advance the tax during the time occupied in converting the barley into malt.

Another argument brought to prove that tithes fall on the consumers,—and which is indeed no other than the theory formerly noticed of an unalterable demand,—is, that if a tax or tithe has a tendency to throw a certain belt of land out of cultivation or cause a certain diminution of outlay, and

thereby create a diminution of produce, the price must be raised till it makes the produce the same as before, *because men cannot go without the produce.* In fact this assumption is probably at the bottom of the frequent introduction of the subject of demand, and of the idea that the corn which is produced with the greatest quantity of labour is the regulator of the price*.

The fallacy here, as has been mentioned already, is in the inattention to the nature of effectual demand, and the assumption that the produce cannot be diminished. It is not true that men say, We must and will have such and such a quantity of corn whatever may be the price. But they say, We will have as much as it is more convenient for us to pay for at the price for which the grower will grow it, than to do without. It is a question of equilibrium, between the inconvenience of paying a high price and the inconvenience of economizing in the use of corn; and whatever may be the laws by which the magnitudes of these two inconveniences severally vary, there must be an equilibrium somewhere, at a point short of consuming the old quantity. That men cannot live without a certain quantity, meaning thereby *some* quantity, of food, is true;—but it is not true that men are living on a *fixed* quantity, which will not be diminished on an increase of price. At the siege of Gibraltar General Elliott ascertained by experiment upon himself, that a man can live on four ounces of food per day. If this is assumed as the smallest quantity on which life can be sustained, it is still, in the first place, not true that the community, or any considerable portion of its members, are living on four ounces of food per day;—and secondly, even if it was true, the result of an increase of price would be, not that the same quantity of food would continue to be bought by the consumers whatever was the price, but that the population would begin to decrease by all the modes consequent on insufficient food, and that for this decrement there would be no food bought at all. So far

* This argument is advanced in very plain terms by Mr. M'Culloch.

'Suppose no tithes are levied, and that the wheat raised on the *poorest* 'lands, or with the capital last applied to the soil, and which determines 'the price of the whole crop, yields a sufficient profit to the cultivator, 'and no more, when it sells for 70*s.* a quarter—the price must rise to 77*s.* 'before the same profit can be obtained after tithes are imposed. In this 'case the tithe cannot possibly occasion any diminution of rent; for this 'produce pays no rent; so that if it were not compensated to the culti-'vators by an increase of prices, they would withdraw their capital from 'cultivation, and the necessary supplies would no longer be obtained.'—*Supplement to the 4th and 5th Editions of the Encyclopædia Britannica. Art.* Taxation. p. 629.

from there being any necessity that the same quantity of food shall be bought, it does not even follow that the buyers shall all live to buy. But there is no necessity for pushing the argument to this length. It is sufficient to attend to the fact, that when there is a necessity for the consumption being diminished because the corn is not there to be consumed, an increase of price is the engine which carries it into effect;—a clear proof that increase of price diminishes consumption.

The real magnitude and effects of the increase of price consequent on a tax or tithe, have been shown already. There will be a certain diminution of produce, which will cause a certain reaction on the price in the way of increasing it; and this increase of price will cause the diminution of produce to be finally something less than it would have been without it. But to suppose that it can go the length of destroying the diminution of produce altogether, is like the story of the two cats that ate up each other. Whatever was eaten, there must have been something left to eat it. Whatever may be the effect of the increase of price, there must be some diminution of produce left, to cause an increase of price to exist. The truth therefore is, that there will be a reaction; but one far short of restoring the produce to its original magnitude, or throwing the tax on the consumers.

A late publication has been profuse of arguments on the subject of Tithes; and it may be worth while to follow them.

'We now come to the important conclusion. This may be stated in a few words. The lowest soil in cultivation pays no rent [*to the landlord*]. Every soil from which produce is extracted pays tithe [*to the clergyman*]. Rent therefore [*to the landlord*], and tithe [*to the clergyman*] are not identical [*Who ever thought they were?*], but altogether different. But tithe, not being a portion of the rent of land, [*Here shift the meaning of rent, from the net payment to the landlord, to the total residuum left after paying the expenses and necessary profits of the cultivator.*] can only be a tax on produce, and in the language of Mr. Ricardo, 'like all taxes on produce falls *wholly* on the consumer.'—WESTMINSTER REVIEW. No. II.

The fallacy here, is manifestly in shifting from one meaning of the word rent to another during the argument*.

* A still more extraordinary fallacy on the same basis appears in the Supplement to the 4th and 5th Editions of the Encyclopædia Britannica.

'But, independently of these considerations, the fact that tithes and 'other taxes on raw produce do not form a deduction from rent, but go 'to increase the price of produce, is obvious from the circumstance that 'the tithe of expensive crops, and which require a great expenditure in 'their cultivation, frequently amounts to *four* or *five* times the rent of the 'land. The Rev. Mr. Howlett, by far the ablest advocate of tithes, and 'whose authority cannot, therefore, be questioned, informs us that the

'We think, however, that there is a simpler mode of arriving at the same conclusion.

If tithes are not paid by the consumer, as it is contended, they are portion of the rent of land [*that is, of the total residuum left after paying the expenses of cultivation; not, it may be presumed, of what is left after themselves are paid*]. This is admitted. It will also be granted, that every acre in England not specially exempted, whatever it may yield under the name of rent [*to the landlord after the tithe is taken*], returns to the clerical incumbent a tithe of its gross produce. It follows, that the lowest possible rent [*total residuum*] of land in England—for tithe is [*taken out of the*] rent by the supposition—is a tenth of its gross annual produce. [*This is quite true. The tithe will prevent the land from being cultivated, except where nine tenths of the gross annual produce will pay the expenses and necessary profits of cultivation, or where, after the payment of these, there will be a residuum of at least one tenth.*] If this be the case in England [*where there is a tithe*], it must be so universally, wherever land is appropriated and brought into cultivation [*whether there is a tithe or not; such is the argument*]. It is well known that the farmer on the banks of the Ohio, so far from paying a tithe of his produce as rent [*either to the landlord or to the tithe-owner*], pays no rent at all. The same might no doubt be observed of lands much nearer home. The lowest rent [*residuum*] of land, therefore, [*in places where no tithe is taken,*] is not the tithe of its produce [*Who ever thought it was?*]; and [*consequently,—for such is the argument,*] where such a portion is extracted by provision of law, [*that is, in places where tithe is taken,*] that portion is not rent of land, but a tax on produce.'—WESTMINSTER REVIEW, No. II.

The fallacy here—if the term can be applied—consists in arguing that tithe is not taken out of the residuum where tithe exists, because tithe is not taken out of the residuum where there is no tithe at all.

'Again: Assuming, as before, that tithe is portion of the rent

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'tithe of an acre of hops, raised on land worth 40*s.* or 50*s.* an acre, is, 'after deduction of drying and duty, generally worth from £3 to £4; and 'he further states, that he had known £7 or £8 paid for the tithe of an 'acre of carrot-seed where the land was not worth 20*s.*! In such cases, it 'is plainly as great an absurdity to affirm that tithes fall exclusively on the 'rent of the landlord, as it would be to affirm that a *part* is greater than 'the *whole*.'—Art. TAXATION. By J. R. M'Culloch, Esq. p. 630.

The whole of this is a confusion of ideas arising from the two meanings of the word rent.

When a tax or tithe is said to form a deduction from rent, this manifestly means from *the rent as it would be without the deduction of the tax*, and not *as it is after the deduction.*

Nobody ever said that the 8£ which is the tithe of an acre of carrot-seed, is taken out of the 20*s.* which is left for the landlord afterwards; but that it is taken out of the 9£ which is the residuum after paying the expenses and necessary profits of cultivation, and that it is because 8£ is taken for tithe, that only 20*s.* is left for the landlord.

[*residuum*]; we will take, for the sake of argument, the case in which the tithe and the remainder of the rent shall together amount to less than a fifth of the gross produce; or, in other words, in which the portion of rent [*residuum*] paid under the name of rent [*to the landlord*], shall be less than the portion paid under the name of tithe [*to the clergyman*]. Of land in this condition we will suppose two contiguous parcels. Such land will, of course, be all of the same fertility. If the legislature raise the tithe on one parcel to a fifth, [*It is impossible. The whole residuum is not a fifth. The land must cease to be cultivated if it were enacted. It is ordering five quarts to be taken out of a gallon.*] but make no alteration on the other, it is plain that from the former parcel the church alone will extract a rent of a fifth of the gross produce; [*The church will extract nothing at all; for there will be a stop put to the production altogether, in consequence of the demand being greater than will leave the expenses of cultivation.*] whilst from the latter parcel, the landlord and church together will receive something which will be less than a fifth. Here then we should have two parcels of equally fertile land, paying two different rents, at one and the same period; which is absurd. Tithe, therefore, as before, is not of the nature of rent, but of a tax on produce.'—WESTMINSTER REVIEW. No. II.

The fallacy here consists in arguing on what would come to pass, if out of a gallon the legislature should take five quarts. It is John Cade declaring that 'the three-hoop'd pot shall have ten hoops.'

'To conclude, if tithe be rent, the American government by imposing it on the lands in the back settlements, which now yield no rent at all, or a nominal sum which is next to none, may at once *create* a rent equal to the tenth of the gross produce. Advancing another step, it may *create* rent to the amount of half, or even the whole of the gross produce—a supposition too absurd to be insisted on.'—WESTMINSTER REVIEW. No. II.

If the American Government were to impose such a tax, it would put a stop to the cultivation of lands in the back settlements altogether; with the exception of those where nine tenths of the produce were sufficient to give a living profit to the cultivator. There would be a certain reaction on the price of produce, which would in some degree increase the quantity of land that would be able to resist the tax; but the effect would be in the main to check the cultivation of the back settlements, in the same manner that would result from a diminution of one tenth in the productive powers of nature there. The fallacy therefore, is in supposing that the American government would *get* the tax, tithe, rent or whatever else it may be called, because it *enacted* it.

"Let us suppose," it has been said [by a writer on the opposite side], "that the produce of a given quantity of the least fertile

soil, which is said to pay no rent, sells for 40£, and that the claim of the tithe-owner now amounting to 4£ were abolished, would the whole produce, which now sells for 40£, be in that case sold for no more than 36£? 'Yes,' say the political economists. 'No,' say common sense and experience; if the 4£ now received for tithes ceased to be exacted, another claimant to an equal amount would instantly start up in the person of the landlord."

This, the writer in the Westminster Review says would be true, if the remission of the tithe was confined to this particular portion of soil, but would not be true if the remission was general. Which is what remains for him to prove.

'Instead of remitting the tithe of that particular portion, we will suppose it to be remitted universally. The produce of the same portion which formerly sold for 40£, would now fetch only 36£.

For: If the capital employed by the farmer on the particular portion of soil referred to in our case were 31£, and the common profits of stock on that sum were 5£, he would sell *his* produce for 36£ and no more, whether it consisted of 10 quarters or of 9. [*He would not; the competition among the consumers of corn would be such as to enable him to get* 40£ *for the produce as before. And even if the sellers were so dull as not to find this out, there would be a necessity for the price being raised in consequence of the rapid consumption of the stock in hand. Corn sold for* 4£ *a quarter before, because nothing less than that price would induce the competitors to agree in such a division as would spin out the consumption to the needful length; and the same necessity would exist afterwards. But the landlord will immediately come down on the tenant for* 4£ *increase of rent; or, if he refuses to pay it, find another tenant who will.*] If the whole produce of the land he occupied were 10 quarters, of which he paid one to the parson, he must sell the remaining 9 quarters for 36£, because he must have the ordinary rate of profits on his capital. [*They are not sold for* 36£ *because this is necessary to his having the ordinary rate of profits; but it is because they* can *be sold for* 36£ *in consequence of the state of the competition, that the tithe-owner or the landlord can lay hands on the other quarter and still leave him a living profit.*] If the tithe were abolished, and he continued to sell the 10 quarters at the same rate per quarter as he had formerly sold the 9 quarters, his gains would exceed the ordinary profits of stock by the price of the tenth quarter [*and therefore the landlord will take advantage of the competition among farmers, to take the excess from him in the shape of rent*]. This would be speedily corrected by the competition of other growers, [*It would not; because it is corrected already by the interference of the landlord, and because other growers are in the same situation with respect to their own landlords.*] which would compel him to reduce his price till he gained no more than the ordinary profits of stock. The 10 quarters, therefore, the whole produce of the particular portion of soil referred to in our case, and which formerly sold for 40£, would now be worth only 36£.'—WESTMINSTER REVIEW. No. II.

The whole of this is a begging of the point at issue; which is whether the excess will not be taken by the landlord in the shape of rent. Whether it will or not, ascends to the great question concerning the origin of Rent.

In opposition then to all these arguments, the conclusion is, that Tithes fall on the landlords, but have also a certain effect in preventing the cultivation of poor soils, and diminishing the outlay upon others. And it becomes of importance to ascertain the magnitude of this last effect, and to compare it with what would have been the result if the support for the clergy had been raised by a tax on the produce of manufactures instead of agriculture.

In England the waste lands have been estimated at a seventh of the whole. Hence if it may be assumed that the quality of this seventh varies uniformly, from that quality where the expenditure of a given sum will return enough to pay the expenses with the necessary profits and a ninth of all this besides for tithe, to that where it would produce nothing,—the abolition of tithes, in calling into cultivation all the land down to that which would return the expenses and profits without the tithe or furnish nine tenths of the former lowest produce, would call into cultivation one tenth of the waste, and increase the quantity of cultivated land by one sixtieth. And if three quarters of corn per acre is a fair average produce for the whole of the cultivated land in the country, and one quarter per acre for the worst,—the produce of the new land called into cultivation by the abolition of tithes would be a hundred-and-eightieth part of what existed before.

Again, the rents in England are supposed to be in the aggregate a third of the produce. Hence the case so often assumed as an example,—with corn at 55*s.*,—is not very far from an average case. And in it, the diminution of produce consequent on the reduced outlay arising from a tax of one tenth or a tithe, would be less than the three-hundredth part. Adding therefore this effect to the other, the whole diminution of produce effected by tithes in England, supposing them to be universal, may be estimated at less than the hundred-and-twelfth part.

The value of the whole annual produce of agriculture in Great Britain, compared with that of manufactures, has been estimated as being as one to three. If then the support of the clergy were to be raised by a tax on the produce of manufactures instead of agriculture, the tax must be a third of a tithe, or $\frac{10}{3}$ or $3\frac{1}{3}$ per cent. And the consequence of this would be, in addition to the tax being paid by the consumers, to cause a gratuitous loss or prevention of production, which,

if 10 per cent may be assumed as the average rate of manufacturing profits, would be equal to ten elevenths of $\frac{10}{3}$ per cent on the whole amount of goods manufactured. And the value of this, would be to the value of the hundred-and-twelfth part of the agricultural produce, which is what is supposed to be kept out of existence by the system of tithe,—as $\frac{1}{100} \times \frac{10}{11} \times \frac{10}{3} \times 3$, to 1 divided by 112; or as $\frac{1}{11}$ to $\frac{1}{112}$, or something more than 10 to 1,—an inequality not to be got over by any conceivable inaccuracy in the numerical assumptions. In which it is remarkable, that the result is independent of the comparative values of the agricultural and manufactured produce, and will be the same whatever is their proportion. The explanation of which is, that if the manufactured produce is less, a greater portion of it must be taken.

Hence the real state of the charge against tithes is, first, that the tax is paid by the landlords instead of being paid by the consumers as would have been the case if it had been levied on manufactures; and secondly, that there is a saving of more than nine tenths of the loss or prevention of production which would have taken place by the other mode. When tithes are asserted to be a peculiarly pernicious and impolitic mode of taxation, these facts are always kept out of sight. The proof of the assertion falls to the ground upon examination, like the proof of many other popular outcries. As the woodpecker, the rook, and the goatsucker, have been persecuted time out of mind for imaginary injuries, so the ecclesiastical rook has been charged with collecting his subsistence in a manner peculiarly injurious to the public, through clear ignorance or concealment of the nature of his process. Some species of commutation might possibly be better still. But it is plain that the extended outcry has been made either through ignorance, or a desire to direct the hostility of the community to a particular quarter by misrepresentation.

If a tax or tithe should be remitted on a certain portion of the land, the effect would be the removal of something approaching to a proportionate part of the consequences that resulted from the tax. For example, if the tithe in England, provided it were universal, would diminish the whole produce by the hundred-and-twelfth part, and if this would increase the price of corn by sixpence a quarter,—the effect of the remission of tithe on an average third of the land would be, that the produce of the country would be increased by something not far from a third of a hundred-and-twelfth part, and the price of corn fall by about twopence a quarter. And the value of the tax remitted, with the exception of the reaction produced by these petty alterations, would go into the

pockets of the landlords. For it is evident that this would be the result if the land-owners held the land in their own hands. It could make no difference in the prices in the market, whether corn was sold there for the benefit of the tithe-owner or the grower. If the tithe-owner could eat all his corn himself, the case would be different; but as it is, the same quantity of corn must be brought to market, and consequently be sold for the same price. And of this price, the whole that is left after paying the necessary profits of the capital employed, would be rent.—These seem to be all the effects that arise from a partial remission of the tax*.

The next subject is that of Poor Rates.

'If the poor rate were levied in proportion to profits upon farmers, manufacturers, and merchants, it would be a tax upon profits. If &c. —But if a separate tax is laid upon the farmers, we have already seen *that it operates immediately to raise the price of corn sufficiently high to afford them compensation for the tax, and raises the rent of the landlords. It is to them a benefit, not a burthen.*'—Mill. p. 286.

The reasons for opposing the conclusion marked in italics, have been formerly stated.

A poor rate is commonly levied in proportion to the rent. In the case, therefore, of a land-owner uniting the characters of landlord and cultivator, it would be simply a tax upon rent, and would alter nothing else. And the same will take place when the characters are divided.

If a poor rate was levied in proportion to profits or to produce, it would be a tax on profits or on produce, and its effects will be found under those heads.

The Section on 'A Tax per acre on the Land' infers that if the tax was levied only on cultivated land

'Such a tax would *raise upon the consumers, not only so much per acre to the government, but a great deal more for the benefit of the landlords.*'—Mill. p. 290.

and it founds this upon the former argument, that there is a portion of capital employed upon the land, the return to which

* In an Article on the Corn Laws in No. 88 of the Edinburgh Review, as published by anticipation in the Morning Chronicle of Oct. 17, 1826, some inferences on the effect of tithes are presented as derived from the fact of the impost being of partial application.

'—it is obvious that *the price of corn must have been regulated by the 'price for which it can be raised on the last lands cultivated that are free from 'tithe*, and not for what it could be raised for on the last lands cultivated 'that are subject to that charge. It appears, therefore, &c.'

Corn *can* be raised on the sand above high-water mark, if any body chuses to do it in defiance of the loss; but it is clear that it is not meant to say that this corn would regulate the price. What is meant therefore must be, that the price of corn has been regulated by the price for which

is sufficient to afford the ordinary profits of stock, but nothing more, and that

'If any addition is made to the cost of producing, *a rise of price must afford compensation.*'—p. 288.

The fallacy of this, as before stated, is in supposing that this portion of capital will of necessity continue to be employed.

By application to the case of the land-owner uniting the characters of landlord and cultivator, it is plain that a tax per acre on the land, whether confined to cultivated land or not, will be taken from the landlord. In cases where the tax per acre should be greater than the rent, the landlord, if he could escape the tax by it, would keep the land out of cultivation, or even disown it altogether. But if he cannot by either of these means escape the tax, he will have no resource but to get all the rent he can, and make up the tax out of his own pocket.

To recapitulate, The Theory of Rent with its adjuncts is proved to be fallacious, First, By the irrationality of the conclusion that what it assigns as the cause *is* the cause; as demonstrated by the application of a similar conclusion in other cases;—and Secondly, By the results being contradicted by the evidence of experiment. The theory says, that no rent should be paid where land is of a uniform quality and the art of forcing crops is unknown. The palpable fact is, that a heavy rent is paid in countries lying under precisely these circumstances. The theory says, that landlords lose rent by turnips and drill husbandry. Landlords quietly do all in their power to encourage both. The theory says, that taxes on agricultural produce are shifted on the consumers. Landlords and tenants both know, that no power on earth can induce the consumers to give more for a given quantity of corn than the competition obliges them to do. The theory says, that taxes on the farmer's profits, and on his instruments of agriculture, raise rent. Landlords know, that they pay for them out of the

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it can be raised on the last lands cultivated *with a living profit at the going price.* In other words, that the price has been regulated by the price; which is reasoning in a circle.

If it is urged that the price is regulated by the *necessity*, this necessity has no organ for expressing itself but through the price. Which makes the circle as before.

The whole is in fact the fallacy of inversion noticed under the Theory of Rent. The price of corn is neither regulated by one of the things mentioned nor by the other; but the state of competition first settles what shall be the price in proportion to the quantity, and the price determines the quality of land on which it is worth while to grow corn, in tithed lands and tithe-free respectively. And no difference will be made to the consumers, by tithe being taken or not taken; except the slight alterations in produce and price which have been stated.

rent. The theory says, that rent is made higher by poor rates. Landlords know, that it is as snow by sun-shine. The theory says, that a land-tax raises a sum on the consumers for the benefit of the landlords. Landlords are so dull, as never yet to have voted for a land-tax but under the pressure of necessity. When the measure of the truth of a theory shall be the hostility of its results with experiment, this theory may be believed on argument. Till then, it must be believed because it is a convenience to have the labouring classes told, that the clergy are supported out of the price of bread.

The theory of 'No General Glut' is in a certain degree connected with the rest.

'Every commodity is always, at one and the same time, matter of demand, and matter of supply. Of two men who perform an exchange, the one does not come with only a supply, the other with only a demand; each of them comes with both a demand and a supply. The supply, which he brings, is the instrument of his demand; and *his demand and supply are of course exactly equal to one another.*'—Mill. p. 232.

This is the rhythm of an argument, without the substance. The fallacy lies in assuming that the demand and the supply are equal. The supply of every individual is the *source* of his demand,—the *storehouse* from which his demand is taken;—but it is not his *demand*. Nobody ever doubted that the portion of an individual's supply which he succeeds in exchanging with a living profit, is the instrument of his demand; but the question was, whether he might not have a further portion behind, which he could not exchange, or could not exchange with a living profit. The sportsman's charge of shot is the instrument of his demand upon the covey; but it by no means follows that his demand upon the covey shall be equal to his charges of shot.

It seems to be abundantly clear, that if the manufacturing capitalists who now demand a profit of, it may be, 10 per cent on the capital they advance, and consider it as only a living profit, could be persuaded to advance it for 4, their goods would be offered at less price, and a greater quantity would be from time to time manufactured and sold. And if they could be induced to advance capital with no profit at all, a still greater increase of sales might take place. And it might be greater still if, for argument's sake, it were possible that they should consent to advance capital at 4 per cent loss.

By the converse of the argument it seems equally clear, that if the capitalists, from any cause whatever, proceed to manufacture at any of the rates severally specified above,—the quantity of goods from time to time produced will be such as could only be sold with a profit of 4 per cent, or with none,

or with a loss of 4 per cent, respectively; and consequently such as it is impossible to sell with a living profit, when the living profit is 10 per cent. The quantity of production, therefore, will be finally kept down by the accumulation of what it is impossible to sell with a living profit, and the withdrawing of a portion of the producers by bankruptcy.

All that remains to be accounted for, is why, in a given state of manufacturing skill, all the manufacturers and shopkeepers in the country do not make and sell more than they actually do; as, for instance, ten times as much. And here it will be found, that there is an ultimate reference to corn. For if they were to attempt such an increase, they must proceed to create a labouring population approaching to ten times the present number; because when a man is working twelve hours a day already, it is in vain to think of making him work ten times as much. And whether they set about effecting this increase by the shortest road, which would be by the introduction of adult workmen from other countries, or waited for the slower progress of population at home,—it is clear that they must commence by advancing in the shape of wages the means of obtaining a supply of corn which, first or last, is to amount to something like ten times the present supply. But since no prices could have the effect of making the agriculturists produce a tenfold supply, the projectors must, to use a maritime phrase, be *brought up* by the impossibility of furnishing what would purchase the corn required to go on. Hence if they persisted in the attempt to furnish it, they would first discover that their profit was being eaten up in the contest, next that it was nothing, and next that they were continuing the struggle at a ruinous loss. The secret therefore lies in the slowness of the increase of the produce of land, compared with the increase of manufactures which might otherwise be created to tempt the agriculturists withal. It would be easy to double the quantity of goods manufactured, if the offer of them would teach the agriculturists to produce food for two men where they produce for one now, and leave a certain profit for the manufacturing capitalists besides. But as it is impossible for one to keep pace with the other, there must be a point where the increase of manufactures must stop.

There is then, in any given state of productive power and skill, a certain quantity of all kinds of manufactures which can be produced and sold with a living profit. And if more are produced, they cannot be sold with a living profit; and this is a General Glut*.

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* *Note to the second edition.*—It does not seem to be very clear, whether the supporters of the impossibility of a general glut intended

All manufacturers, if not restrained by foresight of the consequences, have the power of increasing their individual produce without reference to what can in the aggregate be finally sold with a living profit. They can do it through the operation of one agent, credit; by which is meant the practice of selling goods for the promise of future payment. There is no man of moderate respectability, who could not through this agency double his rate of manufacturing from the present moment till he appeared among the bankrupts in the Gazette, if he chose to take the consequences. Many foresee the consequences and avoid; some do not, and so create a glut. And this tendency to plethora is kept down from time to time by evacuations in the Gazette; which do not however take place with perfect continuity,—any more than a bleeding at the nose is spread over every minute of every hour;—but appear by fits and starts, as circumstances direct the eruption of the process. There appears therefore reason to suspect,

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to include corn under the term commodity, or not. If they did, it is only another form of the fallacy which consists in assuming that all kinds of production are alike.

If corn had been ever so distinctly included, it would still have been untrue that there could be no general glut. For under any imaginable state of the trade in corn, there might arrive a period when the quantity of manufactures and manufacturers would press against the quantity of food; and then the possibility of a general glut would ensue.

The strong peculiarity attending the production of corn and raw produce in general, is that the facility of increasing the production diminishes with the quantity produced, in a way which does not take place in the operations performed on rude produce by manufacturing industry. A certain quantity of the labour of a husbandman produces a quarter of corn; and a certain quantity of the labour of a manufacturer turns a halfpenny-worth of iron into a watch-chain of great beauty and value. But there is this remarkable difference between the operations,—that if the labour of two individuals were to be employed in making watch-chains where one was employed before, two watch-chains would be produced instead of one; but if the labour of two individuals were to be employed in producing corn where one was employed before, the result would by no means be the production of two quarters instead of one, for the constitution of nature by which the quantity of raw produce varies more slowly than the quantity of labour applied, would intervene.

It is not true therefore, that the difference between agriculture and manufactures is only that one is the application of industry to one kind of produce, and the other to another. But there is a great and substantial difference arising out of the fact, that manufactures are the application of industry in a direction where the produce varies as the labour applied, and agriculture where it does not.

If the labour of two individuals would produce two quarters of corn where there was one before, as it will produce two watch-chains,—it might be conceded that there could be no General Glut.

that the habit of giving credit, which in earlier stages of society may be a useful stimulant, is in more advanced states a principal agent in producing something like a periodical return of commercial distress.

It is not true that there would be no glut, if there was only less of one kind of manufactures and more of some other. The cause of the glut extends to all kinds, and cannot be remedied by altering their proportions.

Agriculturists have also the power of making a mistake in the calculation of the last sum which can be added to the outlay so as to be returned with a living profit; and they doubtless do so occasionally in a certain degree. But the effects of such a mistake are confined to a comparatively inconsiderable sum, and are consequently of insignificant amount; which is the reason why little is ever heard about cultivation being carried to a ruinous extent.

There remains a subject which it is necessary to go through

con volto nè torbido, nè chiaro

protesting against any inferences from the limitation of the commentary.

'Every body knows the fact, that in the greater number of countries, the population is stationary, or nearly so. But what does this prove, so long as we are not informed, by what causes it is prevented from increasing? We know well, that there are two causes, by which it may be prevented from increasing, how great soever its natural tendency to increase. The one is poverty; under which, let the number born be what it may, all but a certain number undergo a premature destruction. The other is prudence; by which either marriages are sparingly contracted, *or care is taken that children, beyond a certain number, shall not be the fruit.*'—Mill. p. 50.

'There are two modes in which *artificial means* may be employed to make population and capital keep pace together: *expedients may be sought*, either to *restrain the tendency of population to increase;* or to accelerate beyond its natural pace the increase of capital.'—Ib. p. 57.

'The result to be aimed at is, to secure to the great body of the people *all the happiness which is capable of being derived from the matrimonial union, without the evils which a too rapid increase of their numbers involves.* The progress of legislation, the improvement of the education of the people, and *the decay of superstition*, will, in time, it may be hoped, accomplish the difficult task of reconciling these important objects.'—Ib. p. 58.

'If we may, thus, infer, that human happiness cannot be secured by taking forcible methods to make capital increase as fast as population; and if, on the other hand, it is certain, that where births take place, more numerous than are required to uphold a population corresponding to the state of capital, human happiness is

impaired, it is immediately seen, *that the grand practical problem is, To find the means of limiting the number of births.*'—Ib. p. 65.

'If Mr. Owen means that population should not go on, and if *expedients* can be employed to limit sufficiently the number of births, there is no occasion for these [Mr. Owen's] establishments.'—Ib. p. 67.

What is it 'the new school of political economy' would be at? And where is it that *superstition* above all things, interferes with their wishes? It cannot be unfair to allow the writer to explain himself, by extracts from others of his acknowledged works.

'It is perfectly evident, that, so long as men are produced in greater numbers than can be fed, there must be excessive misery. What is wanted then is, the means of preventing mankind from increasing so fast; from increasing faster than food can be increased to support them. To the discovery of these means, the resources of the human mind should be intensely applied. This is the foundation of all improvement. In the attainment of this important end, it is abundantly plain that there is nothing impracticable. There is nothing which offers any considerable difficulty, *except the prejudices of mankind.*'—Supplement to the 4th and 5th Editions of the Encyclopædia Britannica. Art. BANKS FOR SAVINGS. p. 93.

'As the tendency in population to increase faster than food, produces a greater number of individuals than can be fed,—as this is the grand parent of indigence, and the most prolific of all the sources of evil to the labouring portion of mankind, take all possible means for preventing so rapid a multiplication; *and let no mere prejudice, whether religious or political,* restrain your hands in so beneficent and meritorious an undertaking. *It would be easy to offer suggestions on this head, if we were not entirely precluded from going into detail.* It is abundantly evident, in the mean time, that indirect methods can alone avail; the passions to be combated cannot be destroyed, *nor, to the production of effects of any considerable magnitude, resisted.* With a little ingenuity *they may,* however, *be eluded,* and, instead of *spending themselves in hurtful,* made *to spend themselves in harmless channels.* This it is the business of *skilful legislation* to effect.'—Ib. Art. BEGGAR. p. 246.

'What are the best means of checking the progress of population, when it cannot go on unrestrained without producing one or other of two most undesirable effects,—either drawing an undue proportion of the population to the mere raising of food, or producing poverty and wretchedness, it is not now the place to inquire. It is indeed, the most important practical problem to which the wisdom of the politician and moralist can be applied. It has, till this time, *been miserably evaded* by all those who have meddled with the subject, as well as by all those who were called upon by their situation to find a remedy for the evils to which it relates. And yet, *if the superstitions of the nursery were discarded,* and the principle of utility kept steadily in view, *a solution might not be very difficult to be found;*

and the means of drying up one of the most copious sources of human evil, a source which, if all other sources of evil were taken away, would alone suffice to retain the great mass of human beings in misery, might be seen *to be neither doubtful nor difficult to be applied.*'—Art. COLONY. p. 261.

It may occur to some readers, that abstinence from marriage is the remedy intended. But this is inconsistent with the data; as will be proved by going through the passages marked with italics in the extracts. For 'marriages to be sparingly contracted,' is one way; but to 'take care that children, 'beyond a certain number, shall not be the fruit,' is another. Abstinence from marriage cannot be termed either 'artificial 'means,' or 'expedients.' The plan is 'to secure to the great 'body of the people all the happiness which is capable of be-'ing derived from the matrimonial union,' though 'without 'the evils which a too rapid increase of their numbers in-'volves;' which is something quite different from abstinence from marriage. What is found to oppose the plan, is 'su-'perstition;' and superstition was never understood to be opposed to abstinence from marriage. The evil of improvident marriages has long been known; but nobody ever entered before on 'the grand practical problem' of 'limiting the num-'ber of births' without diminishing marriages, by means of 'expedients.' The thing is stated to be easy, if it were not for the 'prejudices of mankind,' *religious* among others; and religious prejudices never hindered abstinence from marriage. 'It would be easy to offer suggestions on this head,' but there is something that 'precludes from going into detail.' There is nothing to prevent the going into detail to the utmost, on the subject of abstinence from marriage. The passions, it is declared, are not proposed to be 'resisted;' but they are to be 'eluded,' and made to 'spend themselves in 'harmless channels.' Of all the occupations invented for legislators, assuredly that here proposed is the oddest. The question, it is affirmed, has hitherto 'been miserably evaded;' yet all has been said on abstinence from marriage, that can be said. 'If the superstitions of the nursery were discarded,' the solution might be found; and assuredly there are no nursery superstitions on the subject of abstinence from marriage.

It would be a painful thing to load any sect or school with a disagreeable misconstruction; but if any thing like it should happen in the present case, the aggrieved have a ready remedy, which is, to explain what it is they *do* mean. Men are certainly not always obliged to prove a negative; but when circumstances of reasonable suspicion have arisen out of their own act, the most innocent persons on earth must either do so, or

remain under the imputation. There is no use in pretending not to know, what has been disseminated in full and disgusting detail by the instrumentality of the press*. It is submitted, without violence or exaggeration, to the judgement of unprejudiced persons, whether in the absence of explanation, the passages extracted do not necessarily lead to the conclusion that 'the new school of political economy' intended what is alluded to above.

It may appear questionable to some, whether it is right to bring such a subject into notice. The objection would be valid, if the matter was really drawn out of obscurity. But when a theory has been published in Encyclopædias, recommended in octavos, dispersed in detail by the press, and urged, as cannot be doubted, on the acceptance of every new institution for purposes of education, to the extent of what the influence of the propounders can effect,—this objection seems to be gone by, and nothing is left but to examine the theory on the grounds, first of morality, and secondly of its adaptation to the attainment of the end proposed. And on the first of these, it may be conceded to the fullest extent, that the question shall stand solely on 'the principle of utility,' or the effect on the general happiness. What, then, is to be the situation of the women of the lower and middle classes, when in every street political economists go about seeking whom they may devour, under the assurance that they bring with them the 'expedients' for evading the ordinary consequences of sexual irregularity? And what will be the purity of the wives and daughters of the higher classes, when in every room the footmen are neighing after the chambermaids under assurances of like impunity? There is difficulty enough in keeping the passions of mankind in a state of decent repression, with all the existing checks on their irregular exhibition; and what is to

* To describe it as nearly as is easily practicable, it was an appeal to the doctrines of political economy on the evils of a redundant population, concluding with a detail of 'expedients' for procuring abortion in an evanescent period by mechanical means; or to define it with more accuracy in the words of the extracts, for procuring 'the happiness capable of being derived from the matrimonial union,' without 'children being the fruit.' It was printed in two different forms; and possibly in more. One was of a superior type and paper, in general appearance resembling the hand-bills of fashionable venders of perfumery; and, as might be gathered from the circumstances of the individual case, was distributed anonymously by the twopenny post. The other was in the manner of the lowest order of quack advertisements which are thrust into the hands of passengers at Temple Bar; and was apparently for distribution among the labouring classes. It was stated in some of the public prints of the time, that tailors were the class among whom the plan found its principal supporters, and that the progress of the sect was stopped by a threat of public prosecution.

be the case when one of the strongest checks, the fear of consequences, is removed? Society may and must struggle, with so much of men's passions as are connected with the great operations of nature and the continuation of the species; but it has long agreed to rid itself of the intolerable nuisance of struggling with any others, by referring them to a class of crimes which it is not usual to describe except by omitting to name.

And next for its adaptation to the end proposed. And here it is plain, First, that as long as such practices are not universal, their adoption by one will only make room for the natural use of marriage by another, and consequently the reduction of population will be nothing. Secondly, that the ultimate effect must be the same as that of the permission of infanticide; which is well known to end in increasing the density of population, through men's entering into marriage with some view to the practice while it is at a distance, and shrinking from it afterwards.

It is impossible not to notice the contrast presented by the purity, and even elegance, of the author of the great discoveries on the subject of Population. *Virginibus puerisque canto* may, as far as the spirit of the author is concerned, be written on every page of the work of Mr. Malthus; and his illustrations, such as those of 'the tree with its branches and foliage,' and 'the sunny spot in man's whole life where his imagination loves to bask,' are the very poetry of science.

Though the instructors of youth are not bound to enter into the actual confutation of every unseemly error that men may fall into, enough has been said to show the importance of bringing the pursuits of political economy within the pale of academical education. When such efforts are made to teach the new *mumpsimus*, the least the universities can do is to teach the old *sumpsimus*. As long as the accredited guardians of learning stand aloof from a branch of science peculiarly adapted for the exercise of cultivated reason, it necessarily falls into the hands of those who have less power to distinguish fallacies, and less caution to avoid them.

THE END.

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CATECHISM

ON

THE CORN LAWS;

WITH

A LIST OF FALLACIES AND THE ANSWERS.

By a Member of the University of Cambridge.

LONDON:

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In a book of a few pages bearing the title of "The True Theory of Rent," an endeavour was made to demonstrate, that the cause of rent is nothing but what was pointed out by Adam Smith, namely, the limited quantity of the land in comparison with the competitors for its produce; and that the theory which represents rent as depending on different qualities of land and doses of capital, is a mistake of a consequence for the cause, and has led to erroneous conclusions, including nothing less than the whole inference that charges on the land fall on the consumers.

The answers hitherto collected, have consisted in bringing forward the points of avowed coincidence, and keeping back those of an opposite nature; and then representing, that there is no substantial difference. It was at all events necessary to have accounted for the difference of the results.

The object of the present continuation is to trace the nature and consequences of the Corn Laws, as derivable from the true, or Adam Smith's, theory of rent; and to present, in a concise form, the answers to the fallacies which have appeared upon the subject.

If the conclusions on this point present no direct opposition to those of the theory questioned, it does

not follow that there is not an important difference in the modes of proof. What is contended for is, that the rent's being the superfluity of the price, is at once the reason why charges on the land must fall on the rent, and why restrictions on importation are an unjust invention for the advantage of the landlords; and that the principles controverted have weakened the argument against the Corn Laws, by interweaving with it a fallacy on Tithes.

Such extracts have been introduced, as were required to prevent the necessity of beginning by a recurrence to the former work; and their extent is marked by inverted commas.

As neither the first part nor the continuation were published with a view to profit, if any person should think it worth while to reprint either, he is at liberty to do so.

T. Perronet Thompson,
Queen's Coll.

6, Buckingham Street,
Feb. 22, 1827.

Catechism on the Corn Laws.

" LET the case be supposed of a small number of settlers " taking possession of a large and fertile island; and let the " soil be so good, and their habits of agricultural energy so " limited, that a slight scratching of the ground and throwing " in the seed shall be all the cultivation they ever think of " bestowing, as for ages together has been a picture of the " agriculture of many tropical countries. If the land was un- " appropriated, and every man might occupy at will, it is " plain that in the commencement no man would pay another " any rent. Or if instead of the land being entirely unap- " propriated, the right of property in it was vested in a " number of owners, but who were without the means of " bringing the land into immediate cultivation, it would be " equally plain that the competition among these owners " would in the commencement reduce the rent which any of " them could obtain, to the lowest possible magnitude, which " is in fact no magnitude at all. In such an establishment, " the degree of each man's wealth, supposing him to possess " the brief capital required for setting his industry in motion, " would be in proportion to the exertions of himself or of his " family. He that by his activity could raise or collect much " corn, fruit, sheep, furs, or whatever else were the objects of " industry within his reach, would be comparatively rich. " Such manufactures as he stood in need of, he must obtain " either by the uneconomical process of employing part of his " own labour or that of his dependents in their production, or " by paying for them with part of his agricultural produce to " such artisans as in the progress of the division of labour " would make their appearance. But as he would have no " alternative but either to pay the artisans their price, or " have recourse to the uneconomical and wasteful method of " manufacturing the articles himself, the recompense of these " artisans would in the commencement be exceedingly libe- " ral, and their lives easy. They would be a comparatively

" idle and insolent race, working when they pleased, and al-
" most for what they pleased; as artisans are always described
" to be in newly peopled agricultural countries. But when
" population and cultivation had increased so as to begin to
" press against the limits of the soil, and there was no longer
" new land to be had for asking, a very different scene would
" begin to arise. All the population which was not employed
" in agricultural labour, or supported without labour upon
" some kind of previous accumulation, must apply itself to
" manufacturing industry. And as the number of persons so
" employed increased, a competition would arise among them
" for the products of agriculture upon which they must live;
" and this competition would oblige them to give a greater
" portion of the results of their own labour, in return for a
" smaller and less luxurious quantity of agricultural produce
" than they had been accustomed to receive. It is true that
" the land must finally find food for all that live on it, as the
" vineyard finds wine for all that finally drink Tokay; but it
" does not therefore follow, that many of those who live on it
" may not, when their numbers have increased, live much
" less abundantly than they used to do, and give a much
" greater quantity of the results of their own labour in re-
" turn for a given quantity of the produce. It is proved by
" the experience of all countries, that moderately good land
" is capable of producing food for many times the number of
" hands required for its cultivation; hence all these numbers
" may be called into being, to assist in the demand. If the
" exchange of commodities was conducted by the interven-
" tion of a circulating medium, the money price of agricul-
" tural produce must rise in comparison with the money prices
" of other commodities. Whether this comparative rise would
" take place by an increase in the money price of corn, or by
" a diminution in the money prices of other commodities, or
" by both these processes at once, would depend on the
" manner and degree in which the community had the oppor-
" tunity of supplying itself with the metals employed in coins,
" or on other circumstances connected with the principles of
" currency. But in whatever manner it took place, its effects
" would be virtually the same; so that it is sufficient to con-
" sider the case where the whole alteration is supposed to
" take place in the money price of agricultural produce. The
" land-owners, then, would begin to get rich, through the
" simple fact of their being the land owners, and there being
" no more land to own. If it should be found some day that
" a contiguous island had sprung up of the same nature with

" the first, their prospect of increased wealth would drop at " once; and every thing would go on as it did at the com- " mencement, till the new island had been cultivated and " peopled like the other. But if this does not happen, the " lucky land-owners will incontinently begin to swell into " men of landed wealth. If they keep their land in their own " hands, they will rise into what are termed gentlemen- " farmers, or men who unite in their own persons the cha- " racters of landlord and cultivator. But as soon as what " they obtain by the sale of their produce is sufficiently greater " than the amount for which they can hire one of their less " fortunate neighbours, who is heir to his own industry and no " land beside, the greater part of them will hire a farming- " man or overseer with part of the produce, and sit down in " the enjoyment of the *otium cum dignitate* of landed gen- " tlemen with the remainder. And from this step of the " farming-man, they will soon proceed to the further one, of " finding a farming-man who will advance his own capital, " making an adequate deduction out of the produce in " return, — or in other words a farmer or tenant. The " reason of this further step will be, their desire to get more " completely rid of the trouble of superintending the employ- " ment of the capital; for a tenant has his own interest at " stake in watching it with the utmost exactness, while a " farming-man, having no such interest, must still be super- " intended in a considerable degree. And all the *residuum* " left after delivering to the tenant the portion of the proceeds " which the competition among individuals of his class obliges " him to accept, will be rent. And what the tenant will be " obliged to accept, will be such a part of the price of the " produce, as will return him the capital he must lay out, " with the lowest rate of profit for which men under the " existing habits of the society will consent to lay out farming " capital and superintend its employment. But of the ex- " istence of this residuum, the primary cause is manifestly " the increased price of corn. As it has been accurately ex- " pressed by another author, 'Rent will be paid because corn " sells high; and not corn sell high because rent is paid*.'"

" If it should be objected, that a rise in the money price of " corn must create a rise in the money prices of other com- " modities, — the answer is, that this is as far from following, " as that a rise in the price of corn must create a rise in

* " Principles of Political Economy and Taxation. By David Ri- " cardo, Esq., p. 62."

" wages, at a time when the fact avowedly is that the increase " of competition among the labourers is such as to oblige " them to accept a diminished recompense. The cases are in " reality alike."

" In all this there is no occasion for a word about different " qualities of land, or doses of capital. The abstract case is " what is to be settled first; and then the accidents are to be " taken into the account, till the whole is brought to the case " presented in nature. This is the way men philosophize in " other instances; and must needs be the way in this. To say " that the abstract case is not the practical one, would be the " argument of a man who had never contemplated such a pro- " cess as analysis. All complex cases are solved by dividing " them into abstract ones; and almost all the cases of nature " are complex."

" If it *happens* that there are lands of every variety of down- " ward quality, then as population, competition for food, and " prices increase, men will be enabled and induced to take " lower and lower qualities of land successively into cultiva- " tion, stopping always at the quality where the produce will " do no more than repay the expenses with the lowest profit " for which they will consent to lay out capital and superintend " its employment. At the same time the value of the produce " on all the superior lands will increase; and since all the " difference between the actual proceeds and what allows that " lowest profit, will be taken for rent at the first moment when " the landlord is able to avail himself of the competition which " is in his favour, the rent, on all the qualities of land above the " lowest, will increase also. The quantum of inferiority with " which new lands can be brought into cultivation, will be de- " termined by the rise in the price of produce, which is what " makes their cultivation practicable. The increased quantity " of produce brought into existence by the cultivation of this " new land, will create a certain degree of reaction upon the " price of produce, and consequently upon the quantity of new " land finally brought into cultivation; but a reaction of this " kind can never go the whole length of reducing the price to " its original magnitude. For if it reduced it to this point, " the quantity of land and of produce would be reduced to " their original magnitudes also. But a reaction cannot be " created by an increase of produce that is nothing. Hence " if there is to be any reaction at all, there must be some in- " crease of produce to make it, and some increase of price to " cause that increase of produce. The price therefore must " finally be raised, in spite of the reaction. And it will not

" only be raised, but—since the magnitude of the reaction " altogether, must depend on the magnitude of the increase " of produce compared with the magnitude of the whole pro- " duce that existed before,—in all the cases which occur in " practice, the effect of the reaction will be comparatively " small. But in all this, *it is the rise in the price of produce* " (of which a rise in rent is a necessary concomitant), *that* " *enables and causes inferior land to be brought into culti-* " *vation; and not the cultivation of inferior land that* " *causes the rise of rent.* It is surprising that the author " formerly quoted should have discerned so accurately the " fallacy of supposing that corn sells high because rent is paid, " instead of that rent is paid because corn sells high, — and " should not have observed the kindred fallacy contained in the " inversion of the proposition given in italics above."

"The operation of an increase in the price of produce, in " causing a greater outlay to be made upon the land, and the " mode in which the proceeds will be divided between the land- " lord and the tenant, may also easily be traced. Let the case " be supposed of a land-owner who unites the characters of " landlord and cultivator; and let the lowest rate of profit for " which he and other cultivators are willing to advance capital " and superintend its employment, be ten per cent. per annum*. " And let the amount of what he annually lays out on the land " be 1000*l.* and the final value of the produce 1200*l.* Now the " reason why this cultivator does not lay out annually on the " land a *greater* sum than 1000*l.*, as for instance, 1010*l.*—is " because he knows, either by actual experiment, or by that " tact which enables him to do without it, that the final value of " the whole produce would be increased by less than 11*l.*, " which is the lowest return for which he is willing to advance " this additional 10*l.* If he was to add a second 10*l.*, it might " be returned with no profit at all; and if he was to add a " third, it might cause him a loss; and no man in his senses " would do either. The reason why he does not lay out a " *smaller* sum than 1000*l.*, as for instance, 990*l.*,—is because

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* " This lowest rate of profit must always be something; for nobody " will incur the risk and trouble of employing capital for nothing. And " in countries where a certain rate of interest can be had from safe " borrowers, consisting either of individuals or the government, this fact " is at once a proof that in those countries men in general do not employ " capital without a profit greater than such interest, and a reason why no " individual under any circumstances will do so. For sooner than do so, " individuals would lend their money or buy stock, and receive the re- " turns without risk or trouble."

" he knows that the final value of the produce would be dimi-
" nished by more than 11*l.*, and that consequently he should
" lose an opportunity of employing 10*l.* with what he considers
" as a fair profit. And for the same reasons that this cultivator
" will lay out exactly 1000*l.* upon the land, any other man de-
" sirous of laying out agricultural capital for a profit of ten per
" cent. per annum will agree to do the same. The land-owner
" therefore may, if he pleases, find a man who will engage to
" lay out 1000*l.* per annum on the land on condition of receiving
" 1100*l.* out of the proceeds,—or in other words, pay 100*l.* a
" year out of the produce as rent. If he was to offer it for a
" less rent than this, the farmer would only put the difference
" into his pocket and not increase the outlay on the land. If
" he was to demand a greater rent, he could not get it; be-
" cause the farmer could not live. Hence if the land-owner
" continues to keep the land in his own hands, he may with
" propriety consider 100*l.* per annum as what he makes by be-
" ing his own farmer, and 100*l.* per annum as what he receives
" by virtue of his good fortune in being landlord. Or the an-
" nual gain of 200*l.* may be considered as dividing itself into
" two parts, of which 100*l.* is of the nature of profits of stock,
" and 100*l.* of the nature of rent. To find now the effects of
" an increase in the price of produce, let it be supposed that
" the annual produce of the land is 600 quarters, corn being
" at 40*s.* per quarter; and that the addition of 10*l.* to the pre-
" sent annual outlay of 1000*l.*, instead of effecting an increase
" of five quarters and a half in the annual produce, which is
" what would be required in order to bring in 11*l.*, will only
" effect an increase of five quarters. In this case it is evident
" that an increase in the price of corn of four shillings per
" quarter, would cause the five quarters to fetch 11*l.*, and make
" it worth while for the cultivator to add the 10*l.* to the outlay;
" and it would be added accordingly. But at the same time
" that the annual produce of the estate was thus increased by
" five quarters, and the part of the final gain which resolves
" itself into the profits of stock was increased from 100*l.* to
" 101*l.*,—the price of the other 600 quarters would be in-
" creased by 120*l.*, which would be rent, and make the whole
" rent 220*l.* And if the addition of a second 10*l.* to the an-
" nual outlay would produce four more quarters, then to make
" it worth while to add this second 10*l.* to the outlay, the price
" of four quarters must rise to 11*l.*, or the quarter to 55*s.*;
" which would increase the portion that resolves itself into
" profits of stock to 102*l.*, and make the rent rise again by
" 332*l.* 15*s.*, or the whole rent be 552*l.* 15*s.* It is true that

" a certain degree of reaction would from time to time take " place on the price of corn, in consequence of the increase " of produce created by the operations of this and other land- " owners. But, as was shown before, the reaction cannot go " the length of restoring the price of corn to what it was ori- " ginally; and when it is said that corn rises by four shillings " or any other sum, this includes all reactions, and conse- " quently no correction for reaction is required. And the " sums thus stated to be of the nature of rent, are what the " land-owner, if he chuses to let his land, would in the long " run be able to obtain in the several circumstances described. " If the landlord mismanages his own affairs,—if he hampers " himself with leases which prevent him from taking a fair " advantage from time to time of the competition among the " farmers,—or if he finds it impracticable in the nature of things " to regulate a contract of the description concerned with in- " cessant and inviolable accuracy,—these are not the defects of " the theory, but of the execution. This distinction is of the " greater importance, because many of the difficulties which " arise on the subject of rent, proceed from confounding the " irregularities in its receipt which spring out of the absence " of an incessantly active system of operation on each other on " the parts of the landlord and tenant, with the amount which " will be received in the long run and upon the whole, and " to which all the contracts between landlord and tenant will " tend as to a mean."

" It may be collected, therefore, that the effect of every " successive increase of price will be, in the first place, to " make rent rise every where by the amount of the increase of " price upon the previous produce, as fast as the landlords have " the opportunity of adjusting their agreements with their te- " nants. And in the next place, the effect will be to bring " a certain belt of new land into cultivation, *provided there* " *happens to exist* land so circumstanced in point of quality, " as to be capable of being brought into cultivation with a profit " by the supposed increase of price; and to cause a certain " augmentation of outlay on all the other lands in cultivation, " *provided the cultivators are acquainted* with the method of " forcing a greater crop by a greater outlay. And the conse- " quences of these two operations, *if they take place*, will be a " certain increase of produce, and a certain reaction on the price " of produce in the way of keeping it down, which must how- " ever fall far short of keeping it down to its original state. " In the same manner every successive diminution of price will " cause all the contrary results. The most marked consequence " will be to make rent fall every where by the amount of the " decrease of price upon the final produce; which will take

" place as fast as the tenants have the opportunity of adjusting " their agreements with the landlords. And besides this, a " certain belt of land will be thrown out of cultivation, and a " certain diminution of outlay be made on other lands; *under* " *the provisoes stated in the other case.* And the conse- " quence of these two operations, if they take place, will be a " certain diminution of produce and a certain reaction on the " price of produce in the way of keeping it up, which must " however fall far short of keeping it up to its original " height*."

What has preceded shows, that the rent of any object *is the difference between the living price of the produce* (by which is meant the price necessary to pay for the production with a living profit to the producer), *and the price for which the produce can be sold in consequence of the whole quantity being less than there would be a demand for at the living price.* The application of this to land, mines, and most of the ordinary subjects of rent, needs no explanation. In the case of the ground-rent of houses, the house is the produce, and the builder is in the situation of the cultivator or capitalist. Hence the difference between the sum for which the house can be built with a living profit, turned into the shape of an annuity, and the sum which from the situation of the house can be annually obtained by letting it, will be the ground-rent.

The causes of the difference which makes rent, may be either natural or artificial. They take place naturally to a certain extent, with respect to land in peculiarly favourable situations, as for instance in the neighbourhood of great towns. The way in which they take place artificially, will be best illustrated by recurring to the case of the island formerly introduced.

If, after the population of the supposed island had begun to press against the limits of the soil, a contiguous island should spring up of the same nature as the first, the prospect of increased wealth to the land-owners of the first would drop at once. One way only there would be, by which they could keep up the amount of prices and of rents;—for the rent is no other than the superfluity of price, or that part of it which is not necessary to pay for the production with a living profit. One way only there would be; and that is, to prohibit the use of the produce of the neighbouring island, or, in other words, enact corn laws. Of which laws, the effects are to be traced.

If the island first cultivated had been the Isle of Wight,

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* *True Theory of Rent, in opposition to Mr. Ricardo and others. Second Edition. Hatchards, Rivingtons, pp.* 9—16.

and the contiguous land the rest of the United Empire, it is clear that if the original land-owners had the power effectually to decree, that no corn should be consumed but what was the produce of the Isle of Wight,—that though their descendants might wander into the wilds of Hampshire or the deserts of Middlesex, it should be against law for them to eat a fragment of agricultural produce except what had been grown within the licensed territory, — the consequence must have been, that the population, wealth, and power, of the United Empire, must for ever have been confined to something bearing a near resemblance to the present circumstances of the Isle of Wight.

If the land-owners should be disposed to deny this conclusion, they would be answered as regards the question of population, by showing that the produce of the Isle of Wight, even though for argument's sake it could be extended by the cultivation of every nook and crevice to two, three, or four times its present amount, would only be a small portion of the quantity consumed by the present population of the empire. And as regards the question of wealth, they would be answered, by showing that the quantity of commodities which can possibly be manufactured and sold with a living profit to the producers, must in all cases have an ultimate reference to the quantity and price of corn.

" It seems to be abundantly clear, that if the manufacturing " capitalists, who now demand a profit of, it may be, ten per " cent. on the capital they advance, and consider it as only a " living profit, could be persuaded to advance it for four, " their goods would be offered at a less price, and a greater " quantity would from time to time be manufactured and sold. " And if they could be induced to advance capital with no " profit at all, a still greater increase of sales might take " place. And it might be greater still if, for argument's sake, " it were possible that they should consent to advance capital " at four per cent. loss."

" By the converse of the argument it seems equally clear, " that if the capitalists, from any cause whatever, proceed to " manufacture at any of the rates severally specified above,— " the quantity of goods from time to time produced will be " such as could only be sold with a profit of four per cent., " or with none, or with a loss of four per cent., respectively; " and consequently such as it is impossible to sell with a " living profit, when the living profit is ten per cent. The " quantity of production, therefore, will be finally kept down " by the accumulation of what it is impossible to sell with " a living profit, and the withdrawing of a portion of the pro- " ducers by bankruptcy."

"All that remains to be accounted for, is why, in a given "state of manufacturing skill, all the manufacturers and shop-"keepers in the country do not make and sell more than "they actually do; as, for instance, ten times as much. And "here it will be found, that *there is an ultimate reference to* "*corn*. For if they were to attempt such an increase, they "must proceed to create a labouring population approaching "to ten times the present number; because when a man is "working twelve hours a day already, it is in vain to think of "making him work ten times as much. And whether they set "about effecting this increase by the shortest road, which "would be by the introduction of adult workmen from other "countries, or waited for the slower progress of population "at home,—it is clear that they must commence by advancing "in the shape of wages the means of obtaining a supply of "corn which, first or last, is to amount to something like ten "times the present supply. But since no prices could have "the effect of making the agriculturists produce a tenfold "supply, the proprietors must, to use a maritime phrase, be "*brought up* by the impossibility of furnishing what would "purchase the corn required to go on. Hence if they per-"sisted in the attempt to furnish it, they would first dis-"cover that their profit was being eaten up in the contest, "next that it was nothing, and next that they were con-"tinuing the struggle at a ruinous loss. The secret there-"fore lies in the slowness of the increase of the produce of "land, compared with the increase of manufactures which "might otherwise be created to tempt the agriculturists "withal. It would be easy to double the quantity of goods "manufactured, if the offer of them would teach the agri-"culturists to produce food for two men where they produce "for one now, and leave a certain profit for the manufac-"turing capitalists besides. But as it is impossible for one "to keep pace with the other, there must be a point where "the increase of manufactures must stop."

"There is then, in any given state of productive power "and skill, a certain quantity of all kinds of manufactures "which can be produced and sold with a living profit. And "if more are produced, they cannot be sold with a living "profit; and this is a General Glut*."

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* "It does not seem to be very clear, whether the supporters of the "impossibility of a general glut intended to include corn under the "term commodity, or not. If they did, it is only another form of the "fallacy which consists in assuming that all kinds of production are "alike."

"If corn had been ever so distinctly included, it would still have

The magnified case here given, shows by what precise process it is, that the limitation of the food of the United Empire to the produce of the Isle of Wight would curtail in a corresponding degree the amount of British manufactures. That the amount must in some way or other be curtailed is clear; because the corn would be forbidden to exist on which the manufacturers of the present quantity could live.

But if the population, corn, and manufactures, would be reduced to something like those of the Isle of Wight, the power and wealth of the United Empire would be reduced in the same degree. For they can only be composed of some or other of these elements.

If the land-owners of the Isle of Wight should attempt to set up the increase of their rents from the supposed prohibition, as a national gain, and one that ought to be encouraged; —they would be answered by showing, that all that they could gain must be taken from somebody else in the price of corn, which could make no national gain; and that the further result

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"been untrue that there could be no general glut. For under any "imaginable state of the trade in corn, there might arrive a period when "the quantity of manufactures and manufacturers would press against "the quantity of food; and then the possibility of a general glut would "ensue."

"The strong peculiarity attending the production of corn and raw "produce in general, is that the facility of increasing the production "diminishes with the quantity produced, in a way which does not take "place in the operations performed on rude produce by manufacturing "industry. A certain quantity of the labour of a husbandman produces "a quarter of corn; and a certain quantity of the labour of a manufac- "turer turns a halfpenny-worth of iron into a watch-chain of great "beauty and value. But there is this remarkable difference between the "operations,—that if the labour of two individuals were to be employed "in making watch-chains where one was employed before, two watch- "chains would be produced instead of one; but if the labour of two "individuals were to be employed in producing corn where one was "employed before, the result would by no means be the production of "two quarters instead of one, for the constitution of nature by which "the quantity of raw produce increases more slowly than the quantity "of labour applied, would intervene."

"It is not true therefore, that the difference between agriculture and "manufactures is only that one is the application of industry to one "kind of produce, and the other to another. But there is a great and "substantial difference arising out of the fact, that manufactures are the "application of industry in a direction where the produce varies as the "labour applied, and agriculture where it does not."

"If the labour of two individuals would produce two quarters of "corn where there was one before, as it will produce two watch-chains, "—it might be conceded that there could be no General Glut."—*True Theory of Rent, Second Edition, pp.* 57, 58.

was to reduce the wealth and power of the United Empire to something like those of the Isle of Wight.

If they should attempt to represent the diminution of their rents by the admission of any corn but what was grown in the Isle of Wight, as an injury done to themselves;—they would be told, that since all they are to gain must be taken from somebody else, with the destruction of the general interest of the community besides, the policy of preventing such a mode of gain to individuals, stands to a certain degree on the same grounds as the policy of preventing the industry of highwaymen.

If the land-owners should call the encouragement given to the cultivation of every nook and crevice in the Isle of Wight, by the name of the encouragement of agriculture;—they would be told, that the use of agriculture is to have corn, and that the limitation of the corn of the United Empire to that of the Isle of Wight, is not an invention to have corn, but *not to have* it.

If they should call the prevention of the cultivation of these nooks and crevices by the name of an injury to agriculture, and threaten the community with famine from the loss;—they would be told, that if the growth of corn is diminished in the Isle of Wight, it can only be because more and cheaper corn is procured elsewhere, which is not a cause of famine, but the contrary.

If the land-owners of the Isle of Wight should represent that they were great payers of taxes, and that if their gains were reduced it would be impossible they should pay the same taxes as before;—the minister, if there was one, would tell them, that the taxes which could possibly be levied from *them*, could only be part of what they were to receive from somebody else in the extra price of corn, and could therefore just as well be levied from those other persons instead; and that besides this, there would be an accession of all the revenue, which would arise from the wealth and power of the United Empire being no longer limited to what could be raised upon the produce of the Isle of Wight.

If the bankers, if such there were, the monied men, the ship-owners, the lawyers, the professional men of all kinds, the expectants in every line, and the classes who in some way or other live through the expenditure of the public revenue, should be invited to become parties to such a representation of the land-owners;—they would consider whether their respective interests would be advanced by keeping down the wealth and power of the United Empire to those of the Isle of Wight, and whether there was any reason why

they should promote a general injustice against their own interests. Or at all events they would be simpletons if they did not.

If there were occasion for putting the unreasonableness of such a representation in a stronger light, it would be by supposing, that the land-owners of the Isle of Wight were at this moment found praying that the corn, manufactures, wealth, and power of the United Empire might be cut down to what could be supported on the produce of the Isle of Wight, and the increased taxes paid by the land-owners of the Isle of Wight accepted in return; and that the bankers, the monied men, the ship-owners, the lawyers, the professional men, the expectants, and the public servants, were invited to concur.

Exactly the same kind of effects would be produced, if instead of Hampshire or Middlesex the corn was to come from France or from Poland. In one case as in the other, the corn consumed or consumable in the United Empire, would be curtailed by the quantity finally kept out; and the population, wealth, and power, would be curtailed in the degree and manner which have been shown to be the consequence.

It is true that in this case the additional supply of corn would not be raised by the exertions of British agriculturists, but by the exertions of British manufacturers and merchants, acting upon the necessities of Frenchmen or of Poles. The prayer, therefore, of the agriculturists would amount to requesting, that nobody might make national wealth but themselves, or further than they were to have a profit from it. And the way to put the reasonableness of this prayer in a proper light, is to suppose, that the manufacturers, the merchants, and the ship-owners, were found praying that the eating of any British corn might be prohibited by law, that they the manufacturers, merchants, and ship-owners, might have the benefit of importing all from abroad.

If the agriculturists should represent this clashing between the interests of the agriculturists and the other classes, as an abstruse and puzzling matter, in which it required great political knowledge to determine the point where the two interests should rest;—the answer would be, that it was nothing but the question which mankind had already decided over and over again, by determining, that all disputes whether John shall keep Thomas from coming to market or Thomas shall keep John, shall be settled by both John and Thomas selling as much as other people chuse to buy.

If the land-owners should urge, that they were the great

purchasers of manufactured goods, and consequently it was the interest of the manufacturers that they the land-owners should receive high prices, in order that they might expend them on the manufacturers;—they would be answered, that it could be no object of desire to the manufacturers, that the others should receive high prices and expend the receipts upon themselves, if the result was to be that the corn finally received was to be less than they could have got for the same quantity of manufactures elsewhere; and that besides this, there would be the loss of all that might have been obtained for the portion of manufactures and trade, which is prohibited from coming into existence by the limitation of the industry of the United Empire to what can be supported on the produce of the Isle of Wight.

If there were occasion for putting the unreasonableness of such a plea in a stronger light, it would be by supposing the agriculturists of the Isle of Wight at this moment to ask the manufacturers of the United Empire to join them in procuring the prohibition of the corn of the rest of the Empire, and offer them the expenditure of the increased revenues which would arise to the land-owners of the Isle of Wight, in return.

If the land-owners of the Isle of Wight should endeavour to make their monopoly more palatable, by proposing that monopolies of various kinds should be granted to the manufacturers by way of equalization,—or if they should appeal to certain monopolies of this kind in existence, as a reason why their own monopoly should be continued;—they would be answered, that the granting monopolies to the manufacturers had no tendency to remove the great evil, which is the restriction of the industry of the country to what could be supported on the produce of the Isle of Wight; and that the whole plan besides, was only like proposing to remove the evils arising from the occasional occurrence of highway robbery, by licensing the robbing of every man in his turn. And if the manufacturers allowed themselves to be led away by the hope of gaining or preserving this or that monopoly to their particular crafts, they would be like men who should be persuaded to vote for a general scarcity, by the promise of a half-penny roll apiece to themselves.

It would be evident, on view of such a proposal from the Isle of Wight, that the question of free trade rested mainly, and almost entirely, on the freedom of the trade in corn; and that to discuss the use of the greater or less freedom of this or that branch of commerce, while the great commerce in food remained fettered, was like inquiring how much a man's

liberty may be advanced by letting loose his little finger, when the total fact is that he is tied together by the neck and heels.

If the land-owners of the Isle of Wight should have had the influence to a certain degree or for a certain time to prevent the eating of any corn but their own, and should represent the reduction of rents which would arise from the admission of other corn, as the taking away of part of their lawful property; — this would lead to the discovery, of what is perhaps the sorest of all points to the land-owners, that rent is not property, in the sense in which mankind have combined for its protection. The simple basis on which men have agreed to protect property, is that it is the reward of labour, and that without mutual protection to this there could be neither labour nor production. Rent is not the reward of labour; for it is the superfluity of price above what is necessary to pay the cultivator with a fair profit. The land-owners, as distinguished from the cultivators, are a race who toil not, neither do they spin; they live out of the wages of other men's spinning. They cannot receive a farthing of rent, except in consequence of the spinners paying a higher price for the produce than is necessary to pay all the expenses of cultivation with a fair profit. If the land-owners of the Isle of Wight advanced the claim supposed, there would be no getting rid of the dilemma. Either their rents are not property, in the sense in which other men are bound to preserve them; or the land-owners of the Isle of Wight ought to have the monopoly of the United Empire as long as they find it convenient to desire it.

If the land-owners of the Isle of Wight, when struggling for the monopoly of the United Empire, should represent, that of some taxes they paid the whole, and of others a great proportion, and that therefore they had a claim to a monopoly as a compensation; — the first step towards an answer would be, that if they paid more than was right, it should be remedied by laying the taxes in a different manner, and not compensation made by restrictions, of which the effect is to keep down the wealth of the United Empire to what can be raised upon the produce of the Isle of Wight. But there is a much sorer point than this; which is, that for taxation to fall upon rent, is just as it ought to be. If the community about to occupy the United Empire from the Isle of Wight, was in a situation to take a common-sense view of what would be for the general good of themselves and their posterity, they would clearly determine, that no taxation should ever fall on the operations of industry, as long as it was possible for it to fall upon rent.

And this for two reasons; First, because rent is nothing but a tax upon those who have laboured, for the benefit of those who have not laboured; and Secondly, because when a tax falls on the produce of industry, instead of falling on rent which is *not* industry, the tax is lost twice,—once by the consumers, and once more by the industrious in the diminution of their employment and means of gain*. The community, therefore, would determine that no such injury and waste should take place, in the same manner as it would determine that there should be no leaks in the public money-bags. Any individuals who could get possession of the rents, and procure the taxes to be laid on industry instead, would profit in the same manner as if they got possession of the money-bags; but it would be as much the interest and duty of the community to prevent one event as the other. If it was pleaded that the gains and losses would be all within the community, and therefore there could be no public loss, the answer would be, that there was, in the first place, the taking away the reward of labour from those who had laboured, and giving it to those who did nothing in return, which is the only serious objection to taking the money-bags;—and secondly, that there was a gratuitous loss and prevention of an equal quantity of wealth to the community besides, arising out of the taxes being thrown on the produce of industry; which is a mischief the taking of the money-bags has not to answer for. The community, therefore, would pass a self-denying ordinance on the subject of the rents, as well as of the money-bags. The United States of America, or some of them, have in fact done this to a certain extent, by setting apart a portion of their territory for the purpose of hereafter defraying the public expenses.

The land-owners in expectancy, would undoubtedly contend,—as in fact men always do contend as stoutly as they are able for every thing they expect to gain by,—that the moment a portion of land came into any man's hands, it and all that could possibly be made by it became his property, and from

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"A tax on the profits of manufacturers, then, will be taken by the "government once, and there will be an additional loss or prevention "of an equivalent quantity of production besides, which will be lost to "the community without advantage to the government or any body "else, in a manner analogous to what would be the result of a dete-"rioration of the powers of nature. The tax falls on the consumers, "and the gratuitous loss on the capitalists and labourers. And this "last gratuitous loss is measured by, and is in fact identical with, the "losses arising to the manufacturing capitalists and labourers from "the diminution of the extent of their business."—*True Theory of Rent, p.* 38.—For the proof in detail, see the work referred to.

that moment all right in the community to interfere with it was gone for ever. But they would speedily be told, that rent altogether, is of that species of property which civilized communities have at all times undertaken to restrain, to prohibit, or to permit to such precise degrees and in such precise manners as appeared to be authorized by the consideration of the general good; and that if they will lay claim to any property except consistently with the ends and purposes for which civilized society has been formed, they must go out of the pale of civilized society to do it. If a man has a fishery through his lands, the law will certainly not prevent him from fishing upon the ground that what he does not take may be taken by somebody else. This would be robbery, or an interference with that use and enjoyment of property which it is the object of society to protect. But if this man has a mode of fishing, the result of which is, that for every fish taken by himself, *two* are destroyed or prevented from existing in his neighbours waters, the law will put him down directly. For this is precisely the use and enjoyment of property which it is the object of society to prevent. No man has a right to call on the community, to assist him in securing a general loss. The question of resisting taxation upon rent, presents the same case. If the result simply was, that the taxation escaped by one individual must be paid by somebody else, something might be said against taxing rent in preference to industry; though there would still be the reply, that the fruits of industry are the produce of labour which is what mankind has combined to protect, and rent is not. But when the result is, that besides this, the amount must be lost a second time by the community in another form, it enters at once into the case of the fishery, —there are the two fishes taken from somebody else, for one that is to be caught by the owner of the waters. The owner may cry out against the hardship of interfering with what he chuses to call his property; but the simple truth is, that society has not united for the purpose of securing to him such property as he speaks of, but of preventing him from having it. All the claims made for the maintenance of abuses on the ground of their being property or what are technically termed vested interests, depend on this fallacy of calling on society to protect, what the fact is it was formed to prevent.

At the same time it may be a very serious question, in what manner a community ought to proceed towards individuals, who through the ignorance or fault of the com-

munity, have been nursed and brought up in the receipt of revenues dependent on taking the reward from the producer and giving it to him who has not produced. A collector of black mail, where his vocation has not been altogether of his own invention, but is in a certain degree wrought into the habits and sufferance of the public, has a right to be treated with some tenderness; and industrious and civilized communities, when they have grown up in the neighbourhood of similar incumbrances, have seldom been indisposed to offer a liberal composition for their quiet abatement. But there are two points which such communities can never give up. One is, that any composition shall be understood to be a sacrifice to policy, and not to right; and the other, that whatever they may pay for what their opponents have the present power to contest, they will pay nothing for expectations. From the moment, therefore, that one of these collectors from the industry of his neighbours, finds a civilized and intelligent community in his neighbourhood sufficiently strong to think of bringing him to terms, he will be a most lucky man indeed, if he can arrange for the quiet possession of whatever may be found in his hands when he submits to the general compact of society. Nothing can be more certain, than that the intelligence and power of his opponents, and consequently their indisposition to offer favourable terms, will increase and not decrease. He may talk loud, and appeal to ancient endurance, and times when men thought it an honour and felicity to part with their property; but the simple fact will be after all, that the longer he contrives to defer his composition, the worse it will be.

On the whole then, the land-owners of the Isle of Wight would make an exceedingly good bargain for themselves, if they found a community willing to give up the examination into how far the owners of rent had a right to demand the taxation of industry at all, on condition that the land-owners in their turn would give up all idea of preventing the rest of the community from eating any corn they could procure. And the community on its side would be unwise, if it did not reply to any unreasonable resistance on the more palpable of the two points, by making a scrutiny into the still sorer question, and pushing it to the extent which rigid justice should be found to demand; and the growing intelligence of the community enable it to enforce.

If, however, the land-owners of the Isle of Wight should be supposed to carry their point of preventing the eating of any corn but their own, it is interesting to consider by what

precise means the result that must ensue would be carried into effect. The result has been seen to be, that a stop must be put to the increase of the wealth and power of the United Empire, at a point not very far removed from the present wealth and power of the Isle of Wight. And the means by which this result would be produced would be, that the operative manufacturers would increase their hours of toil till human endurance could go no further, without finally obtaining more than the pittance of corn which would sustain life, and raise up the same number of equally wretched successors;—that all the children produced above this number, must be worn down, or, if any body loves the term, *killed off*, by the combined operations of misery and vice, with as much certainty as the population of the smaller domestic animals is kept within limits by drowning and other modes of death;—that the capitalists and traders of all kinds, with the exception of the owners of land, must see their profits reduced to the smallest amount with which it was possible to keep up the appearance demanded from them by society, and escape bankruptcy;—that in consequence no man could exercise any manufacture, merchandise, or trade, with success, except in proportion as room was made for him by the disappearance of some one else, and hence the population of traders must be as rigidly kept down by bankruptcy, as that of the labourers by hunger;—and this evacuation by bankruptcy would appear like a frightful intermittent, where the intermissions barely give time to feel the terrors of the coming fit. In such a country there would arise the phenomenon, of men eager to work, but unable to find any employment by which life could be supported; and for this simple reason, that the avenues to food are shut up, and though men may work, it is against law for food to be procured for them in return. For such men to think to live by working, is as bootless as to think of living by working in a ship at sea without provisions. It is true that by their exertions they may make it the interest of those who have taken possession of the supply of food, to raise a little more by increasing their expenditure upon their land; but it is only like the shakings of the bread-bag, in comparison of the labour that must be given for it. For example, in the instance formerly assumed, which is not far from an average case, the payment of fifty-five instead of forty-four shillings per quarter for the produce, amounting in all to three hundred and forty-three pounds fifteen shillings, would effect the production of four more quarters, or an increase of a hundred-and-fiftieth part; being at the rate of

eighty-six pounds per quarter, or thirteen shillings and sixpence for the quartern loaf;—and when this string has been stretched to breaking, it is plain that there is nothing to be done but to die. In such a country there would be seen crowds of youths of the middle classes, attempting to maintain themselves in credit by industry, and only dispersing the accumulation of their fathers by a fatality that nothing could ward off; families lamenting the ruin of their hopes, and men looking on the faces of their children as pledges of coming sorrow instead of aid. In such a country there would be campaigns against starving manufacturers; and men who had fought nations quarrels, would be called upon to finish the sufferings of dying artisans. There would be a law to determine that every legislator should be a land-owner; and a class of laws to make the poor die quietly, and without disturbing the higher orders by their efforts to escape. To be found houseless would be made a crime; because he that has parted with his house, has manifestly not starved when he ought. To be detected with horse-flesh in a bag, would be punished with fine or imprisonment; because a man who descends to such disgusting callings to save life, is evidently making efforts unfair upon his fellows. In such a country, there would be troops of juvenile offenders in the towns; and regiments of poachers in the fields, living desperately on pheasant because men are not permitted to buy bread. There would be 'distressed manufacturers,' and 'commercial crises,' and 'a general glut,' and 'depravity of the lower orders,' and 'apprehensions for property,' and 'fears for establishments,' and 'danger to social order,' and every man asking his neighbour how these evils had arisen. On one side would be seen the rich few, enjoying with trembling; and on the other would be seen industrious and able-bodied men, dying because working would not support existence as it ought to do;—women and children trodden down in the mass of suffering, and retiring into corners to die without resistance as is their nature;—woe, and want, and wretchedness, and wrong,—and all this, that the squire's bitch hound might whelp in safety. If any legislators ever had a heavy responsibility, it would be those who tolerated such a state of things an hour after they had the power to remove it. If any ever had a claim to the support of a grateful people, it would be those who ventured power and place, by resisting the demands of the encroaching order, and putting themselves upon their country for their deliverance.

If it should be urged, that there must always come a time

when population will press against food, and therefore there is no use in attempting to escape it; this would be like urging, that there is no use in a man's escaping from murder now, because he will not be immortal afterwards. There is all the difference in the world, between enduring an evil by the will of providence, and by the act of man. Human life in the whole, is but the procrastination of death; but that is no reason why men should die just now, for other men's convenience. There may come a time when there will be no coal to burn, no iron to make tools, and perhaps no salt left in the sea; but this is no reason why men should not make something of the interval which must intervene. The time when population will press irremediably against food, must, to a great manufacturing and naval people, be almost as remote as the time when there will be no salt left in the sea. And come when it may, it must always come gradually; which is by itself no small diminution of the mischief. The maximum of contingent evil in prospect, is only equal to what it is proposed to bring on at once; and all the world must be cleared and peopled, before the evil can arrive.

If however, after all, the land-owners of the Isle of Wight had got the supply of the United Empire into their hands, the important question would be, how the evil must be removed. And here it is plain that the object must be, to produce the minimum of present suffering and the maximum of final good. The suffering arising during the process of a return to justice, must be set off against the removal of the recurring and perpetual suffering arising from the evil; always remembering, that the reason why the greater suffering is removed at the expense of the less, is not simply because it is the greater, but because it is unjust. And here it is plain, that the way to diminish the suffering on the defendants side of the account, is to reduce the evil gradually. Not, however, so gradually as never to reduce it at all, as would be the case if the defendants were left to remove it themselves; but by such a reasonable progression as shall at once hold forth a clear prospect of deliverance to the community, and divide the pressure upon those who are to disgorge. A duty, for example, equal at first to a full protection, and reduced by a tenth of the present amount annually till it was entirely removed, would combine the two properties required.

If any thing short of final removal was proposed, a discerning community would clearly take all that was offered, and not relax in its endeavours to get the rest. Such a proposal leaves untouched the body of the wrong, and all the

danger arising from the sense of injustice. It is like the generosity of the feudal lord, who instead of insisting on his *droit de seigneur* for the full tale of three nights, should graciously offer to compound for one.

The attempt to prevent one man from buying what another is willing to sell to him, and oblige him to buy from a third person with the avowed object of making him pay that third person a greater price, is so manifestly of the nature of robbery, that nothing can make it tolerable in a country where ideas of justice and civil liberty have made any considerable progress. And consequently this object is not generally avowed; but the plan is put forward under cover of some advantage that is to arise to the community from its permission, or some detriment from the contrary.

Of all the arguments of this kind, there is only one of a nature to make a serious impression on an impartial observer; and that is, the objection, that a nation which procures a portion of its food by barter, must be at the mercy of foreigners. There is no doubt that such a case is possible, and, whatever the political economists may say, has happened. A signal instance of it occurred at the conclusion of the last war, when the unfortunate country of Norway, growing little or no corn, and accustomed to procure it by the barter of iron and wood, was starved into submission by a squadron of gun-brigs. But it must be borne in mind, that the case of Norway and that of a great commercial and naval people, are as different as any two cases it is easy to imagine. Exactly as the power and communications are multiplied, the chance of being cut off from supplies is diminished. There may be a certain chance remaining after all; but the chance of the prevention of evil by the very proceeding in question, is infinitely greater. On the principle proposed, a man might abstain from walking abroad, lest he should be crushed by a falling house; and from eating solid food, lest he should be choked by a crumb. Both these are things which have sometimes happened; yet it is clear that on the whole, the chances of well-being are greatly increased by walking abroad and eating bread. It may fairly be doubted, whether the case of a great commercial and naval people being starved by foreigners, ever did happen; and the general tendency of the thing objected to, to extend a happy existence, is as clear as in the other cases.

The substance of what has preceded may be collected into brief questions and answers. To which is added a list of fallacies advanced, with their solutions.

What is meant by Corn Laws?

Answer. Laws which enact that the labourer shall not exchange his produce for food, except at certain shops, namely, the shops of the land-owners.

For whose benefit are these laws?

A. Manifestly, of those who support them,—the land-owners.

What are the effects of these laws?

A. The same in kind, as would arise from limiting the food consumed in the United Empire, to what could be produced in the Isle of Wight.

What would be the consequences of such a limitation?

A. That the manufactures, wealth, and power, of the United Empire, must be limited to something like those of the Isle of Wight.

How would this be brought about?

A. First, By a general distress among the manufacturing labourers, arising from employment and wages being reduced to what afforded the smallest pittance of food upon which life could be supported;—as is the case now.

Secondly, By a general glut and stagnation of trade, arising from more goods being manufactured than could possibly be sold with a living profit;—as is the case now.

Thirdly, By the impossibility of any man's prospering in any new manufacture, trade, or project;—as is the case now.

Fourthly, By the population both of labourers and traders being limited in proportion to the limitation of food, the first by hunger, the second by bankruptcy;—as is the case now.

In such a state of things, could not able-bodied men support themselves by working?

A. No more than they could support themselves by working, in a ship at sea without provisions.

Will not the offer of their produce induce the growers to grow more corn?

A. In the same way as more milking will produce more milk from a given cow. There may never be a time when it is impossible to extract another drop; but nobody will live upon the difference.

What is the difference between preventing men from buying food, and taking it from them after they have bought it?

A. That in one case they starve without working, and in the other with.

Are not the increased rents of the landlords their property?

A. No more than the increased prices which a shop-keeper might get, if he could prevent men from buying at any shop but his own.

Is it not hard that the owner should not sell the produce of his land for the most that is possible?

A. Not so hard as that the manufacturer should not sell his produce for as much as he can get by a free sale. The case is like that of two men struggling to keep each other out of the market; and what justice and the public good demand is, that both should sell for as much as they can.

Do not the landlords pay a number of taxes?

A. It is just that they should. They are not labourers; and all that they can possibly have, is paid for out of other people's labour. Rent, altogether, is nothing but the excess of the price above what is necessary to pay for the production with a fair profit.

Do not they pay the tithes?

A. No more than a man pays, what was left to his brothers and sisters by their common father. A man cannot be said to pay, what he never had.

Is it not wrong to encourage the production of foreigners?

A. When a manufacturer produces goods and exchanges them abroad for corn, he may as truly be said to produce the corn, as if it came out of his loom or his flatting-mill. And if he is prohibited from doing this, it is *his* production that in reality is stopped.

Is it not the interest of the manufacturers that the landlords should have high

A. Not if they are to consume them for less than could be had from other people.

rents, in order that they may consume their manufactures?

How is such a state of things to be altered?

A. By waiting till it is generally known, how much all men, except the land-owners, are interested in the removal of the injustice; and by taking all means to increase such knowledge.

What is the way for any man to know, whether he is interested in the continuance of the corn laws or not?

A. By asking himself whether it would be for his interest, that the wealth and power of the community should at this moment be reduced to what could be supported on the produce of the Isle of Wight. If he finds that this would not be for his interest, he may be sure that it is not for his interest that the wealth and power of the community should be restricted as they now are by the corn laws.

What would be a fair composition to offer to the owners of land?

A. That the community on its part would give up the inquiry into the right of rent to an equality of taxation, if the land-owners on their part would give up all idea of preventing men from having as much food as they can buy.

What is the answer to the fallacy

1. That a theory may be true in the abstract, and false in practice.

A. If a theory is not true in practice, it is not true at all; for it must be a theory falsely applied. Theory, means an assertion that a certain inference is true or according to the dictates of common sense and experience. For instance, the assertion that two and two will make four, is a theory.

The object of this fallacy, is to disable human reason and common sense, for the benefit of the objectors; and to persuade us, that nobody knows when we ought to be starved but themselves.

2. That if foreign corn is introduced, the quantity of home-grown corn will be

A. The quantity of home-grown corn can only be diminished, in consequence of a greater quantity of foreign corn being introduced. If prices were such

diminished; by which nothing will be gained.

as to make it no easier to consume foreign corn than home-grown, the importation of foreign corn would be nothing, and the demand for home-grown corn would consequently be unaltered.

3. That if corn falls, wages must fall; and consequently cheap corn can be of no advantage to the labourer.

A. This must depend on whether wages fall *as much* as corn. No foreign corn will be brought into the country, unless more can be had for a given quantity of industry than can be got from the growers at home. If, therefore, foreign corn comes in at all, there must be a greater share for the labourer; or in other words, wages will not fall so much as corn.

4. That if corn rises, the labourers must obtain the same *real* wages as before; otherwise their numbers would not be kept up. And by parity of reasoning they will only receive the same *real* wages when it falls.

A. It is not true, that when corn rises the labourers will obtain the same *real* wages as before. For corn can only rise in consequence of its being scarce; and to say the labourers get the same real wages when corn is scarce as when it is plentiful, is to say they get as much corn when it is not there as when it is. If the rise in the price of corn is permanent, their numbers *will not* be kept up.

5. That only a certain quantity of corn is wanted for the world's consumption; and the question is merely whether it shall be supplied by one people or by another.

A. There is a fraud in the word 'certain.' A *fixed* quantity of corn will no more do for the world now, than it would have done on the day that Noah came out of the ark. The happiness of the existing population depends, not only on having *some* corn, but on being at liberty to increase the quantity by its own exertions.

6. That if the trade in corn was free, foreign farmers would consume a quantity of goods which English farmers now consume; and the English would cease to consume them.

A. The foreign farmers would consume and pay for a quantity that is not now made or consumed by any body.

7. That the labour of one hundred men in Britain at present employed to raise a given quantity of corn, would be dispensed with, and exchanged for the labour of ninety men in France or Poland; and the hundred men of Britain would be reduced to want, while the labourers of France or Poland would be benefited.

A. What is kept out of sight is, that a thousand men in Britain would be introduced to employment and food; among whom the hundred who cease to be employed in agriculture, would have as good a chance as any of the others, with the exception of the difficulties arising from their change of occupation.

8. That the manufacturers want great consumers; and therefore they should let the landlords consume.

A. The manufacturers want only great payers; and it is the same thing to them whether they find them in England or Poland. They have not the smallest wish that the landlords should consume for nothing, or for less than could be had from other people.

9. That agriculture is the source which pays labour, produces markets for the manufacturer, trade for the merchant, and taxes for the state.

A. *Procuring corn*, does all this. But the agriculture here intended does not mean having corn, but *not* having it. It means the limitation of the United Empire to the produce of the Isle of Wight, or in some other manner the result of which shall be, that there will be less corn than there might have been.

10. That a landlord's treasure must be in England; a merchant's may be all over the world. And therefore it is impolitic to encourage merchants at the expense of landlords.

A. It would be just as wise to say, that the drone's treasure was in the hive, the bee's scattered all about the fields. The merchant sends abroad and brings home; the landlord produces nothing and consumes. And what the merchant or manufacturer asks for, after all, is only that he may sell his produce in a free market, and the landlord sell his.

11. That the operatives are a lazy race, and seldom go to work before Wednesday.

A. The landlords never go to work at all.

12. That their children are miserable and short-lived, rendered rickety by the unwholesomeness of their employment, and the excessive quantity of their work.

A. It is only too true. And therefore they pray to have leave to buy what they can, that they may eat more and work less.

13. That the agriculturist is the manufacturer's best friend.

A. The manufacturer's best friend is he that will give him the most of what he wants in return for his goods.

14. That to remove the corn laws, would be to put a maximum price upon grain.

A. It might as well be said, that to prevent one shopkeeper from putting down the rest, was putting a maximum on goods.

15. That the manufacturers, by selling their goods to foreigners, destroy their home market.

A. They destroy it, by selling for two bushels of corn abroad instead of one at home.

16. That if there is less business done between the land-owners and the manufacturers, there must be a contraction of the currency.

A. The only consequence would be, that there would be fewer shillings and more silver spoons. The time is past when men could be deceived by tricks upon currency.

17. That the heavy taxes are the cause of the dear corn.

A. There is no doubt that the taxes produce in the landlords a desire to raise the price of corn. But they ought not to be allowed to do it by preventing the labourer from buying food where food is to be had. This is taking away the fruit of labour from the labourer, for the benefit of those who have not laboured; or, which comes to the same thing, cutting off the possibility of his labour having any fruit.

18. That it is not true that corn can in reality be obtained

A. The amount of these taxes should be laid on something else, and the country have the benefit of the increase

cheaper abroad; because a great part of the price of English corn is composed of taxes, which if not paid by the landlord, must be paid by somebody else.

which would thus be allowed to its wealth and commerce in the aggregate. It would be senseless to keep down the wealth and commerce of the country to what could be supported on the produce of the Isle of Wight, because a part of the price of this produce would be paid by the agriculturists in taxes. The taxes that can be raised out of the wealth of the United Empire in a state of freedom, must always be greater than can be raised out of the monopolists.

19. That the manufacturers want a market, but not particularly a foreign market. They may sell to the inhabitants of Staffordshire or Wales, as well as to the Poles or the Swedes.

The manufacturers want the market where they can get two bushels of corn for their goods, and not the market where they can get one.

20. That if there were no restraints on trade, England would be supplied with cottons and woollens from Mons or Jemappe, with iron from Sweden, with grain from Poland, Germany, the Crimea, or America, and with everything from everywhere.

A. None of these will be given for nothing. Something therefore must always be produced to pay in. And nothing will be imported, unless that in which it is paid for, can be produced at home with greater final advantage than the commodity for which it is bartered.

21. That we should be obliged to pay for these in money.

A. This could go on no longer than it was more advantageous to have the commodities than the money. And if the end was an increased trade with South America for silver, there would be no harm in that.

22. That money failing, we should have no commodities at all.

A. If we got no iron from Sweden, we should be obliged to make iron at home as before. Our iron factories cannot at the same time be destroyed by getting iron from Sweden, and by not getting it.

23. That we are altogether in an artificial state; and therefore must go on as we are.

A. This only means, that the community is losing by a great many hurtful monopolies instead of one. Men are agreeing to vote for a general famine, for the promise of a halfpenny roll apiece for themselves. Each sees the mischief of his neighbour's bargain, but fears to lose his own; and so all suffer like fools together.

24. That if every thing was cheap, every body would be ruined.

A. This is the great fallacy of the enemies of free trade. When the traders in any particular branch obtain high prices, they get rich; what then so plain, as that if the traders in all branches get high prices from one another and from the public, they must all get rich; and the contrary?

This is the blunder of teaching a man to get rich by filling his purse out of his waistcoat pocket. If he fills either his purse or his pocket by itself, he may get rich; but not if he fills one out of the other.

If John Adams, in his residence on Pitcairn's Island, was to propose, for example, to get rich by making and keeping a canoe himself, when he could obtain yams cheaper by paying the natives of some neighbouring island for bringing them in canoes of their own, and was to set down the increased expense bestowed on his canoe as a gain to the shipping interest of John Adams, it would be plain that it was only John Adams making himself creditor by himself, and that whatever was the flourishing appearance of his shipping account, the real fact was, that he and his family lost and threw away all that might be saved by employing the cheaper mode. The case is the same in greater communities; except that it is one set of individuals that gain the shilling, and another that lose the pound.

If one man should be allowed to take a halfpenny apiece from every individual in the United Empire, he would get rich. But if all people had liberty to do the same, they would not all get rich. Some men cannot understand this, and therefore go on crying out, "The shipping interest will be ruined, and the silk trade will be ruined, and you will all be ruined together; by giving over filling your pockets at the expense of one another, and trying to fill them by having more of every thing you want." And at the bottom of the whole will be found the land-owners, who are the only persons who have any thing really at stake in keeping up the delusion.

A time will come when the public will wake as from a

dream, and ask who it was that persuaded them, that the way to be rich was for every body to give as much as possible for every thing. In the meanwhile there is nothing to be done, but to wait till the progress of knowledge makes men ashamed of being impoverished by such a fallacy.

25. That if we diminish our home production in any branch, we shall be disappointed of the expected supplies from abroad, and so be obliged to return to the home production with loss.

A. This cannot happen if the alteration is gradual.

26. That it is a shocking thing to talk of diminishing our home production.

A. The question is not of diminishing our home production, but increasing it; for nothing can be had from abroad, but through the medium of something that must be produced at home.

To put the objection fairly, it should be stated, that it is a shocking thing to diminish our home production *in any branch, though the consequence should be that the home production on the whole was greater than before.*

27. That if our foreign commerce is to be instrumental to the diminution of our agriculture, there is no compensation that it can offer for the sacrifice.

A. The sacrifice, and the compensation, consist in having two bushels of corn where there was but one before.

28. That we cannot have the blessings of civilization and wealth, and the cheapness of provisions which is found in unimproved countries.

A. We cannot have them both at once *from our own soil;* and there was never any question of doing it. The question was, whether cheap corn is not the best, wherever it may come from.

29. That the countries where cheap corn is found, are very miserable.

A. The question is not whether those countries are happy, but whether having their corn would make *us* happy. The

objection is like saying, 'On no account let your ladies wear furs. You 'have no idea what wretches the North-'Western Indians are; and above all, 'their women.'—The misery of the people quoted, proceeds neither from having corn nor having furs; but from totally different causes, which our buying their corn or furs is one step towards removing. They have all the qualities required in customers; which are, to want what we have, and have what we want.

30. That an expense has been incurred on the inferior soils, and it would be waste to throw it away.

A. If some unwise gentleman, by raising grapes in hot-houses, had contrived to make wine equal to Port at the price of Tokay, the best thing his friends could recommend to him, would be to burn his hot-houses whatever had been the outlay, and take to drinking port at four and sixpence like his neighbours. There is no doubt that the outlay will be lost; and the sooner, the better.

31. That the landlords who have made the outlay, and the people who are to benefit by its being thrown away, are different individuals, and therefore one has a claim to compensation from the other.

A. If the gentleman supposed, had built his hot-houses in consequence of the existence of a law prohibiting the introduction of foreign wine, the case would certainly be altered.

The first question then would be, 'Had the gentleman any hand in mak-'ing the law himself?' If he had originated the plan, and voted in parliament after parliament for its support, he would clearly have no claim.

32. That indifferent spectators have vested their capital in land, and therefore ought not to be prevented from making their expected profits.

A. If they have vested their capital upon expectations injurious to the community, they must take it out again; as the law would direct in a similar case that came before it. It may be a reason why the removal of the evil should be gradual; but not why the evil should not be removed at all.

They always knew that their expectations were subject to the contingency of the law's continuing; and paid for them accordingly. A man might as well

claim parliamentary compensation for an east wind. He always knew the wind would blow easterly at some time or other.

33. That the land-owners relied on the corn-law contract.

A. The corn laws were no more a contract, than the election of a member of parliament by a majority of one is a contract. They were an act valid till an opportunity offered for getting a majority on the other side. With whom did the land-owners make the contract? Was it with themselves, who were the majority that made the law? Or was it with the minority, that were doing all they could to hinder it?

34. That plenty and cheapness were the offspring of the confidence of the farmers in the continuance of the prohibition.

A. Plenty and cheapness cannot have been the offspring of having a smaller quantity of corn instead of a greater. And it is impossible for importation permanently to take place, except as it brings in a greater quantity.

35. That all things have gone well with us, and therefore nothing should be altered.

A. This is only saying, that things have gone on as they have; and because there has not been a total destruction of happiness, nothing must be mended. Distressed manufacturers and commercial stagnation, are to be no proof that any thing should be altered; but because all the manufacturers are not starved, and all commerce is not at an end, nothing is to be changed. So in Ireland men doubtless said, 'Potatoes have grown when they were planted; 'therefore plough on with your horses tails.'

36. That when the country was in its greatest prosperity, things were high in price.

A. During the war the annual expenditure was doubled by borrowing for twenty years together, as the expenditure of a spendthrift is doubled by dint of mortgaging. This was the merry time. And when the expenditure ceased, as cease it must, then came the woeful time; and all the population and interests which had been raised up by the anticipation of expenditure, necessarily perished. If any man wants to know how people died of the funding-evil, let him read the reports of charitable institutions during the years that succeeded the war. Many fell by the earlier symptoms; but those in whom the disorder went its full length, died of a collapsion of the intestines.—This is the history of the connexion between prosperity and high prices.

37. That as we introduce foreign corn, we lessen the value of our own.

A. The use of corn, is to have corn to eat. It might as well be argued, that corn ought not to be introduced into a town besieged, because it would reduce the value of what was there already.

38. That foreigners will always buy what they want to buy, and sell what they want to sell, whatever may be our laws with respect to corn.

A. What foreigners will want to buy, will be that which they can get by giving something which they want less. To refuse, therefore, to take what they can best part with and we want, is the sure way to hinder them from buying and us from selling.

39. That to seek out foreign customers in preference to those who are upon the spot, is absurd.

A. The superiority of a customer depends simply on whether he will pay more than another, of that which we want to receive.

40. That our own manufacturing workmen should have the means preserved to them of buying our own corn.

A. This is saying, that they should have the means of buying two bushels, where it is determined there shall be only one.

41. That there is no limit to the corn that can be produced at home, if people will pay for it.

A. This is like saying, that there is no limit to the milk which can be produced from a single cow, if people will only pay for the keep. There may never be a time when it is impossible to obtain another drop. But in the first place, it is clear that the quantity is limited after all. And next, that there is no reason why people should pay for feeding a cow on green peas, when by sending across the brook they may have good milk produced by one fed on straw.

42. That the produce of Great Britain and Ireland is equal to the support of their inhabitants.

A. This is only saying, that there are never more inhabitants than are fed. It would have been equally true, if nine-tenths of the present inhabitants had been starved.

43. That our being able to supply ourselves, is proved by the fact that we *have* been supplied.

A. As before, all that is proved is, that we were never more than were kept alive.

44. That people ought not to want to populate so much.

A. If Noah had shut himself up in his ark, and let his family eat nothing but what could be grown upon his decks, he would soon have had an outcry against population, and an emigration committee; and Shem, Ham, and Japhet would have been 'distressed manufacturers.' And instead of reading lectures on not multiplying, his remedy would have been to let in foreign corn.

A commercial and manufacturing nation, has or ought to have, like Noah, no limit but the world. What he was to do by digging, it can do by spinning and inducing other men to dig. The steppes of Tartary and the prairies of America, are so many pledges that it need be yet but in the youth of its existence. What is to come next, when the world is filled up, it does not seem necessary to determine in this present parliament. What is clear is, that the felicity of the existing generation depends upon progression, as it did with Noah. It can make no difference, except in the size of the experiment, whether men are confined to the corn of an ark or of an island.

45. That the excess of population should be relieved by emigration.

A. To pay a million for preventing the people from keeping themselves, and a million more for carrying part of them away, is paying twice for poverty.

Emigration may have a tendency to let off the evil at a certain point; but there can be no right to inflict the evil till men ask for transportation as a relief. Emigration is a valve; the pains of transportation the weight upon it; and the landlords have the benefit of the high pressure.

46. That if the manufacturers are already in such a state of distress as calls for emigration, to throw a number of agriculturists out of work must increase the evil.

A. Not if for every man thrown out of employment in agriculture, ten men are brought into employment in other ways.

47. That the distress of the artisans is caused by production increasing in a greater ratio than consumption.

A. It is caused by the efforts of men to produce — or in other words to do something which they may exchange for food — increasing faster than the food. The way therefore to diminish the distress, is to allow men to exchange all they can for food.

48. That if the manufacturing labourers had free trade, it would be of no use to them; because they could never keep pace with power looms.

A. The manufacturers must be better with power looms and free trade, than with power looms without it.

49. That the manufacturers are not dying through the high price of corn, but through want of employment.

A. The want of employment, is simply because their pots and pans are not allowed to be sold to those who would buy them and give corn instead. The land-owners say they will give corn; but not enough to keep soul and body together. Thus one set of men are prevented from buying food, that another may have high prices.

50. That if we receive corn from other countries, we are not sure that they will receive our manufactures in return.

A. They will receive what w e have to give, or else not give us corn.

51. That the prices of foreign corn may be raised upon us, not merely by the cupidity of foreign merchants and speculators, but by the exactions of foreign governments.

A. The fear of the cupidity of foreign merchants, is childish. A merchant is always swayed, and ought to be, by an advantage of a farthing per cent. either way.

If foreign governments should try to exact, they must exact from their own subjects, not from us. Suppose Portugal was to try to exact from us, by taxing the exportation of wine. The only consequence would be, that the Portuguese wine-growers would be ruined, and we should buy wine elsewhere.

52. That it is the interest of a country to support its own population with the produce of its own soil.

A. Not if it can support them better with the produce of another. It might as well be said that it was the interest of the country, to supply its wine-drinkers with the produce of its own soil by means of hot-houses.

53. That cheapness of bread can only be

A. It would be as true to say the same of the cheapness of wine.

permanently obtained by the produce of our own soil.

54. That to increase the growth of corn, is surely the way to afford a supply.

A. Not if for every bushel added to the home growth, two are taken away from what might by procured by another course.

55. That the most effectual security, both in peace and war, against the returns of scarcity, must be derived from our maintaining ourselves habitually independent of foreign supply.

A. This is only saying, that the most effectual way to lose nothing, is to have nothing to lose.

56. That plenty is dangerous, because we may be deprived of it.

A. Two legs are dangerous, for the same reason.

57. That the free admission of foreign grain is a bounty to foreigners to extend their agriculture at our expense; and is therefore a premium on foreign rivalship.

A. It extends our manufactures in an equal degree. To refuse it, is like a draper's refusing to sell cloth and buy bread, lest he should raise up a rival in the baker.

58. That the permission of importation would inflict barrenness on a fruitful soil, and render it doubtful whether the day might not come, when England should no longer produce a sufficiency of food for its inhabitants.

A. It would be as the importation of wine would inflict barrenness on a fruitful hot-house. If the supply failed from abroad, hot-houses might begin again.

59. That a high price of corn is at once cause, symptoms, and consequence, of the progress of a country in wealth and civilization; and *vice versâ*.

A. It only shows, that people want a great deal more corn, if they were allowed to get it.

60. That the high price of bread is the result of commercial prosperity; not the cause of national distress.

A. It might as well be argued, that in a town besieged, the price of bread is a proof how prosperous men are.

61. That corn would be of a high price, even though the landlords should agree to take no rent.

A. The tenants would become the landlords. Which proves nothing against the necessity of admitting foreign corn.

62. That the money price of corn is not the test of its real price.

A. The test is, the labourer's receiving a greater quantity of corn for a given quantity of labour.

63. That though we get our corn apparently cheaper than it is grown in England, it may turn out that we measure that cheapness or comparative value by a merchandise which is worth more in one country than it is in another.

A. Leave the dealers to settle this. The whole trade, craft, and business of a dealer, is to see that nothing of this kind takes place.

64. That the assertion that commercial prosperity depends on the low price of food, is disproved by the fact, that in India rice is so cheap that a workman can live on twopence a day; and yet English muslins are exported to India, and undersell the others.

A. If a labourer in India only gets as much rice as he can eat for his day's work, it matters not whether it costs two pence or two shillings. If, however, he really gets more food for his day's work, it only proves that the skill of the British workman, aided by machinery, more than makes up for the difference.

65. That the landlord receives only what his property is fairly worth, or what others

A. The shopkeeper who should put down all other shopkeepers in the town, would take no more than men were obliged to offer him. The question is,

feel it to be their interest to offer him.

whether measures shall be allowed which oblige other men to give him an unnecessary price.

66. That rent is the value which circumstances, over which the landlords have no control, give to their land.

A. It is not the landlords who are asked to control, but the government.

67. That rent depends on the value of the land.

A. The value depends on the rent; and not the rent on the value.

68. That rent is only the fair profit of the price paid for the land.

A. If a Roman emperor offered the yearly pillage of a province for a present sum, the sum paid would be calculated on the same principles as in the case of any other annuity. But this does not prove the whole proceding just.

69. That rent is only the value of the land, paid by instalments.

A. It is a value dependent on an unjust law.

70. That rent is only the natural price of the use of the land.

A. It is the natural price of the use under an unjust law.

71. That rent depends on a contract voluntarily made between the landlords and the tenants. And therefore any unfairness or greediness on the part of the landlords, would be corrected by the tenants.

A. Just, as regards the contract between landlord and tenant; but not just, as regards the effect on the community. There might be a perfectly fair bargain, between the Roman emperor and his contractor.

72. That the property in the rent of land, is the origin and foundation of all other property.

A. The origin and foundation of property, is labour. The proposal to keep up rent by restrictions, virtually includes the essence of personal slavery; which consists in obliging one man to labour for the benefit of another, without an equivalent.

73. That the proprietors of land have *a right* to the protection of the state.

A. They have *a right* to sell their produce to all who chuse to buy it, and to let others do the same.

74. That they ought to be shielded from the experiments which theorists desire to make upon their property and comforts.

A. The man who takes my purse, has the same desire to be sheltered from theorists; especially the theory of justice.

75. That if the result of free trade is the impoverishment and distress of the people, it will be ill compensated by an adherence to philosophical maxims and sentimental conceptions.

A. The philosophical maxims are, that every man has a right to sell the produce of his labour. The sentimental conceptions, that one man ought not to be starved, to please another.

76. That we ought not to follow the conceits of theory.

A. Conceits of theory mean, believing that two from four leaves two.

77. That free trade is nothing but the greediness of the manufacturers.

A. It is the greediness of those who labour, in desiring to have something, that prevents those who never labour, from having every thing for nothing.

78. That supposing every man to consume a quarter of corn yearly, and the price of corn to be reduced by the freedom of trade twenty shillings a quarter, the benefit could at most be only twenty shillings a year, or three farthings a day.

A. He will not only have paid less by twenty shillings a quarter for whatever he may have had, but he will also have had a plentiful supply instead of an insufficient one. He will not only have paid three farthings a day less for his daily loaf, but he will have had a larger loaf. And besides this, he will have had all the increase of comfort, in the way of increased employment and otherwise, which arises from the wealth of the community being in a progressive state instead of a stationary one.

But suppose the thing were true. Twelve millions of men would save twelve million pounds a year. And why should the community subscribe twelve millions a year to serve the landlords?

79. That it is not the interest of the manufacturers, but the interest of the public, that should be considered.

A. The interest of the manufacturers and the interest of the public, coincide. If the manufacturers had procured a law to prevent the sale of any English corn, then the interest of the public would coincide with that of the agriculturists. The interest of the public is, justice.

80. That the duty on imported corn goes to the public account.

A. This is only saying, that the landowners do not take both the high prices and the duty.

81. That the fair and equitable consideration is, whether the ordinary amount of rent at this time, bears a just relation to the circumstances of past and of present times.

A. The fair and equitable consideration is, whether rents are such as are consonant with justice, or with allowing every man to enjoy the fruits of his own labour without hindrance. If rent is to go beyond this, a collector on the high road might as well request to have it considered, whether his ordinary receipts bear a just relation to the circumstances of past and present times.

82. That a certain price is necessary to *remunerate* the agriculturist, and it is just that he should have it.

A. The demand of the agriculturist, is to be remunerated for what nobody wants him to produce, because it can be got better elsewhere. The manufacturer might as well require the agriculturist to wear two stockings on one leg, or one stocking at the cost of two, and demand to be remunerated.

The agriculturists will always be remunerated for all they produce; by the token that they will not produce what they are not remunerated for. What they desire is, to produce what nobody wants from them, and to be remunerated for that. The way to judge of the reasonableness of the request, is to suppose the manufacturer making a similar demand on the agriculturist.

83. That the landlord stands in the place of the master-manufacturer or capitalist.

A. The farmer finds the capital, and deducts it out of the produce. It is the farmer therefore who represents the master-manufacturer or capitalist, and not the landlord.

84. That the landlords add to the production, and much of the improvement of the land proceeds from them.

A. Wherever it is for the good of the community that the land should be brought into cultivation in preference to importation, it will be done without any necessity for giving the landlords a monopoly. All cultivation beyond this, is only making English port at the price of Tokay.

85. That the landlords are the golden egg-laying goose.

A. They lay no eggs at all.

86. That the man who made two blades of grass grow where there was one before, was always held to be a public benefactor.

A. The thing really meant is, making two bushels of corn to exist where there might have been four.

87. That the landlords will suffer by the permission of a free trade in corn; and that no man ought to suffer.

A. When the question is, whether one man must suffer by a return to the rule of justice, or ten for want of it, the last must carry it.

88. That the farmers and servants in husbandry, who are unquestionably real labourers, will suffer also.

A. It is true that some of them must change their occupation. But it is impossible to condemn ten men to the privation of the common right of all men to sell the produce of their own labour, that one may not be obliged to change the mode of his. The fallacy of bringing forward the sufferings of the agricultural labourers from change, consists in keeping back the fact, that ten times as many are unjustly suffering much more for want of it.

It is at the same time worth while to notice the comparative smallness of the loss, which is brought upon the real capitalists and labourers in husbandry. For instance, in the case formerly taken as an example, which is not far from being an average case, a reduction of price from 55*s*. to 44*s*. per quarter, while it relieved the public from the annual payment of 332*l*. 15*s*., would only diminish the profits of the capitalist or farmer by 1*l*. per annum from the moment that he had the opportunity of making a fair arrangement with the landlord, and his outlay or expenditure by 10*l*. What is contended for then is, that the public should pay 332*l*. 15*s*. per

annum, in order that the farmer and his servants may have employment to the amount of 11*l.* by selling what the public can better buy elsewhere.

89. That the petty shop keepers and others, who have the custom of the occupiers of land, must be ruined.

A. Not if they have an equal chance of selling to somebody else instead.

90. That there will be a falling off in the brown stout and Christmas pies, in the formerly hospitable butlers pantries of the landlords.

A. Brown stout and Christmas pies are paid for too dearly, when one man eats them, and others lose ten times what they cost.

91. That the Corn Laws were not passed as temporary expedients, but as perpetual laws.

A. So men say all, with respect to laws they wish perpetual. The truth is, that all laws, not involving the receipt of a *quid pro quo* that implies perpetuity, are made to last during the pleasure of the makers.

92. That when a capital has been invested, parliament has no moral right to abrogate laws by which such capital is affected.

A. This would amount to proving that parliament can make no laws at all. The very law by which the landowners hold their monopoly, must have put down a mass of interests that were hostile to such a law; and no law can ever be made that does not.

93. That rents were reduced one-fourth by the return to cash payments, and the property of annuitants increased in the same proportion; and therefore the rents ought not to be diminished.

A. The change in the value of rents was purely nominal. The reason why rents were paid with four pounds instead of five, was because the four pounds were worth the five. If the property of the annuitants was increased, it was only because they had been defrauded of a part before.

94. That it is necessary to keep up prices, in order that the fund-holders may be paid with a small quantity of corn.

A. Paying the fund-holders with a small quantity of corn, means simply, cheating the fund-holders. It is no reason why the community should allow itself to be defrauded, that the fund-holders will be defrauded also.

95. That it is cruel in the annuitants to wish to preserve their annuities untouched, when the landlords might be benefited by their giving them up.

A. There is no reason why the annuitants, whose annuities are the recompense of past labour, should give up any thing to preserve the landlords, who are no labourers, in the possession of an unjust gain.

96. That the manufacturing interest ought to be conciliatory.

A. It is not conciliation that is wanted, but justice. When Thomas is kept from selling in the market to please John, there is no use in telling Thomas he ought to be conciliatory. Give him justice, and the common right of all men. He must be an idiot, if he licks John's feet, to obtain permission to sell the fruits of his labour to such as chuse to buy it.

97. That the landlords are amiable and well-conducted; and their daughters handsome.

A. It may be true; but other men have handsome daughters to take care of too.

98. That the annuity of the annuitant will be doubled, if the price of corn is reduced one half.

A. This only proves, that if the price of corn has been unjustly doubled, the annuity of the annuitant has been unjustly reduced one half.

99. That the annuitants live in luxury.

A. The annuitants have laboured; and therefore it is just they should live in luxury if they can.

100. That the fund-holders ought to be robbed.

A. To rob the fund-holders of their interest, after having spent their capital, would, besides all the evils of breach of contract, have the hardship of an *ex post facto* law, with the unique addition of being made in the teeth of the invitation of an existing law. The nation which should do it, would virtually declare itself incapable of contracting any national engagement, or performing any national act. A community must either acknowledge the possibility of being bound to-morrow by its act of to-day, or it must disband; for if it declares its own incompetency, it will be treated with as a community by nobody. And for any thing that could be gained by such a proceeding, it might as well be proposed to gain by robbing all the individuals who had red hair. The individual robbers might gain by it, but the community could not

gain; because the red-haired men are themselves part of the community. If the principal expended could be called back again, it would be a different case. But nobody can seriously believe, that by what has been called applying a sponge to the national debt, the community would be one shilling the richer; or that by robbing one individual of five pounds per annum in order to put it into the pocket of another, the smallest progress would be made towards recovering the hundred which was spent thirty years ago. A man might as well try to repair the loss of a leg, by shifting the deficiency from one side to the other. If every individual was a fund-holder in the same proportion that he is a tax-payer, it would be clear that the attempt was only shifting the leg. And it is just as true, when the case is as it is; with the addition only that the fund-holders are the smaller party, and therefore might possibly be robbed.

And this is not the fallacy of saying that a national debt is no evil. It is a very great evil; and the worst thing about it is, that there is no getting rid of it. When a million is borrowed and expended, the evil is inflicted *then*; and not by the shifting of the interest from one pocket to another afterwards.

The magnitude of the evil or punishment, is the same as if there had been inflicted a judicial necessity for throwing the amount of the interest annually into the Thames. For if the money had never been borrowed, the man who is now the fund-holder would have had the principal in his pocket, and the tax-payer would have saved the interest; which is the same to him as saving it from the Thames. But there is a special provision of Providence, that when money has been thus raised, no possible dishonesty shall get rid of the burthen. If the principal had been borrowed from Prester John, the community might possibly gain by cheating him of his interest. But since the interest is owed to a component part of the community, it is in the constitution of things, that the community, however inclined to the practice of larceny, can gain nothing by robbing itself.

101. That money may as well be taken from the fund-holders as from the landlords.

A. This is saying, that it is the same thing to defraud a just creditor, and to prevent a shopkeeper from raising his prices by monopoly.

102. That if expediency is to be the rule, away go all corn laws and public annuities together.

A. Justice is expediency. The payment of the public annuities is just, and therefore expedient. The corn laws are unjust; and inexpedient in all other ways besides.

103. That the landlords, however, wish for no sweeping measures; they only wish to be let alone.

A. When a man has possession without right, this is commonly what he wishes.

104. That the change is revolutionary and dangerous.

A. Not a word was said of revolution, when the change was the other way.

The danger is not so much in doing the thing as in leaving it undone. Every body knows, that if it is not done, it is because a disproportioned share of the representation is in the hands of the landlords. Every body knows too, that for the rich not only to have the natural influence of their riches, but to have a monopoly of the representation besides, is in point of naked justice as unreasonable, as if they were to claim not only to have the benefit of their riches in the market, but to have the poor kept out in addition; — and that if the system stands, it is because things go on tolerably well under it. If one class of individuals takes advantage of it to make the others keep them, things do *not* go on tolerably well; and men will call out for a change. The middle classes in this country have an insuperable aversion to unnecessary changes; but if they find out that their distresses, though not coming precisely in the shape of want of bread, but in the shape of the bankruptcy of their sons and of their daughters' husbands, the general stagnation of trade and the impossibility of rising in the world by honourable industry, are traceable to a common cause, — they will join the others, and make a mass of opinion which it will be impossible to resist. If the landowners insist on thrusting the reasons for radical reform into every man's ledger and meal-chest, they must take the consequences. At the same time the danger of change is on all sides greatly exaggerated. Under a despotic government nothing is done without an explosion; but in a country so far advanced in freedom and habits of order as Great Britain, as soon as a sufficing majority believes that a measure ought to pass, all opposition sneaks off.

105. That the race of English country gentlemen, English farmers, and English yeomen, is worth preserving.

A. Not if they are to be kept at the public expense. As long as they can keep themselves, every body is glad to see them.

106. That a bold peasantry is their country's pride.

A. The bold peasantry must keep their country, not the country them.

107. That the landlords are the Corinthian capital of society.

A. It is carrying the metaphor too far, to say they must be supported by the rest.

108. That they are a source of light and knowledge to the lower orders.

A. They teach them what they are anxious they should learn; and others do the same.

109. That they have sound political principles.

A. They take the side which they think best for themselves; and most other people do so too.

110. That they fought the battle against the Jacobins.

A. Which other people are paying for.

111. That all they get, they expend.

A. Most other people do the same.

112. That they are supporters of the fine arts.

A. Wealth would produce the same effects in any other hands.

113. That they feed fat cattle.

A. And are paid for them.

114. That they keep up rural sports.

A. Men have no claim to be paid, for amusing themselves as they like best.

115. That they kill foxes and others.

A. The mole-catcher would do it better.

116. That they sit at quarter sessions.

A. And strange things they sometimes do there. For instance, in Buckinghamshire, they sentenced John Doe to five months imprisonment for intending to assault the lord's hen pheasant, and Richard Roe to three, for assaulting the serf's daughter.

117. That they are the unpaid magistracy.

A. If they demand to be kept, they are not.

118. That they are good moral characters.

A. Other men are so too. But it is impossible for all moral men to be kept.

119. That they are generous, brave, and humane.

A. All Englishmen from time immemorial, by their own account have been so too.

120. That nobody could do without them.

A. Nobody could do without every body; but every body cannot be kept at the public expense.

In conclusion then, glut, commercial stagnation, distressed manufacturers, and the accumulation of bankruptcies, are all portions of one phenomenon, namely, the premature arrival of what Adam Smith calls the 'stationary time.' 'It is in the 'progressive state, while the society is advancing to the further 'acquisition, rather than when it has acquired its full comple-'ment of riches, that the condition of the labouring poor, of 'the great body of the people, seems to be the happiest and 'the most comfortable. It is hard in the stationary, and mise-'rable in the declining state. The progressive state is in 'reality the cheerful and the hearty state to all the different 'orders of the society. The stationary is dull; the declining, 'melancholy*.' A great commercial and naval people could never arrive at either of these undesirable points,—or never under a period which is out of human ken,—except by the invention of corn laws. The continual relief given to the wants of the industrious by bursting through the circle of their present operations, has been nature's instrument from the creation, for the improvement of the globe; and the people which permits a line to be drawn about its industry which it shall not pass, has no right to complain of the sufferings which nature has connected with the infringement of her plan.

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* Wealth of Nations, B. 1, C. 8.

THE END.

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OBSERVATIONS 3

ON

PAPER MONEY, BANKING,

AND

OVERTRADING;

Including

THOSE PARTS OF THE EVIDENCE TAKEN BEFORE THE COMMITTEE OF THE HOUSE OF COMMONS,

WHICH EXPLAIN

THE SCOTCH SYSTEM OF BANKING.

BY

SIR HENRY PARNELL, BART., M.P.

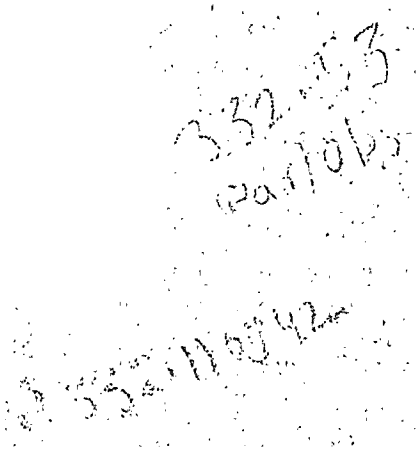
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ON

PAPER MONEY,

&c, &c.

SECTION I.

State of the Currency Question.

It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country. That part of his capital, which a dealer is obliged to keep by him unemployed, and in ready money for answering occasional demands, is so much dead stock, which, so long as it remains in this situation, produces nothing either to him or to his country. The judicious operations of banking enable him to convert this dead stock into active and productive stock; into materials to work with, and into provisions and subsistence to work for; into stock which produces something both to himself and to his country. The gold and silver money, which circulates in any country, and by means of which the produce of its land and labour is annually

circulated and distributed to the poorer consumers, in the same manner as the ready money of the dealer, is all dead stock. It is a very valuable part of the capital of the country, which produces nothing to the country. The judicious operations of banking, by substituting paper in the room of a great part of this gold and silver, enables the country to convert a great part of this dead stock into active and productive stock, into stock which produces something to the country.

This is the language used by Doctor Adam Smith, in showing, that the advantages a country may derive, from substituting paper money for gold and silver money, under the management of a judicious system of banking, are in the proportion in which the quantity of paper exceeds the quantity of gold and silver*; and it has been selected as an introduction of the following inquiry into the present state of paper money and of banking in England, because it may serve in some degree to dispel that prejudice against the use of paper money, which seems at present to prevail; and at the same time to justify the attempt to maintain the policy of giving every facility for employing it. Notwithstanding the length of time that has elapsed since the publication of the Wealth

* Wealth of Nations, vol. i, p. 483.

of Nations, there is not perhaps any work in which all the leading principles, which relate to paper money and banking, are more fully and clearly stated than in the chapter of Adam Smith's work from which this passage has been taken, and it is, therefore, particularly deserving of being read with great attention, by every one who wishes fully to understand the subject.

Although the Bank of England was established in the year 1694*, the amount of its notes formed but a small part of the circulation; but few country banks were established; and paper money seems to have had no considerable influence in promoting the speculations of trade until the close of the American war, a period when the commerce of the country began to make great progress.

At the close of the year 1782, and during the year 1783, the foreign exchanges were considerably below par, and the drain of bullion from the Bank of England for exportation was so great, that the cash remaining in the Bank was lower at one period, in 1783, than it was afterwards at the period of suspending cash payments in 1797. The Directors of the Bank, in their evidence before the Lords' Committee of Secrecy in 1797, endeavoured to account for the drain by saying, that it proceeded from the great ex-

* 5 Will. & Mar., cap. xx, sect. 19.

tension of commerce, which followed the peace with America, and which occasioned so considerable an export of commodities, that the circulation was hardly sufficient to keep pace with it*. But a moment's reflection will show, that the export of goods could never have had any influence in producing the drain; but that, on the contrary, it must have contributed to improve the exchanges, and to check the drain. The true reason is to be found in the great increase in the issues of paper by the Bank, which took place early in 1782. In the month of March of that year the amount of its notes in circulation was 9,160,479*l.*†; in 1780 it had been 8,400,000*l.*, and in 1779 only 6,000,000*l.*‡

From 1783 paper money rapidly supplanted the gold and silver money. The issues of paper, in the years immediately preceding 1793, were very great, and did a vast deal of injury, by encouraging the spirit of over-trading which then prevailed, and contributed very much to aggravate the commercial distress of that year.

In the years subsequent to 1797, until 1820, the circulation consisted wholly of paper money,

* Evidence of Mr. Bosanquet, page 20, Lords' Report, 1797.

† Tooke on Currency, Appendix, No. 5.

‡ Evidence of Mr. Samuel Thornton, Lords' Report on Currency, 1819, page 75.

in consequence of cash payments being suspended. The history of the progress of paper money from 1797 displays a succession of misfortunes, which have afflicted the country. But it is well deserving of consideration, whether these misfortunes ought not rather to be attributed to the defective system of banking, that is to say, to the system which regulates by law the means by which paper is issued, than to any inherent mischief in paper money, which is merely a substitution of a cheap medium of exchange in place of an expensive one. One circumstance is quite manifest; namely, this, that the principles laid down by Adam Smith have never been adopted, either by the managers of the banks or by Ministers, as the rule of their conduct; and therefore there exists a strong presumption, that paper money might have been employed without any of those misfortunes occurring, had it been managed in a different way.

In regard to the difficulties of the Bank of England in 1797, the warmest advocates of Mr. Pitt cannot maintain, that his conduct displayed any acquaintance with sound principles. But although it is not at present necessary to inquire, whether or not the order in council of that year for suspending cash payments could have been avoided, it is worthy of being mentioned,

that reasons exist (arising out of the facts of that case, and the opinions of persons of high reputation for their knowledge of commercial affairs) for saying, that the whole of the difficulties were produced by the great issues of paper made by the Bank in the preceding years *, and for supposing, that if the Bank, when the distress first appeared, had increased its paper, in place of diminishing it, commercial credit might have been assisted, and the run for guineas on the Bank diminished.

But with respect to the next measure of Mr. Pitt's concerning the currency, it is scarcely possible that there can now exist a second opinion in regard to its being a direct violation of every sound principle of finance and trade. This measure was the Act of Parliament, which passed in November 1797, for continuing the suspension of cash payments during the then existing war.

On the 26th of October the Directors of the Bank communicated to Government a resolution they had agreed to, as follows:—

"*At a Court of Directors at the Bank, on Thursday, the 26th of October* 1797:—

"RESOLVED—That it is the opinion of this Court, that the Governor and Company of the

* Amount of Bank of England notes in circulation, in February 1794, 10,963,380*l.*; in February 1795, 13,539,160*l.* —Mushet on Currency, p. 11.

Bank of England are enabled to issue specie, in any manner that may be deemed necessary for the accommodation of the public; and the Court have no hesitation to declare, that the affairs of the Bank are in such a state that it can with safety resume its accustomed functions, if the political circumstances of the country do not render it inexpedient: but the Directors, deeming it foreign to their province to judge of these points, wish to submit it to the wisdom of Parliament, whether, as it has been once judged proper to lay a restriction on the payments of the Bank in cash, it may or may not be prudent to continue the same *."

But notwithstanding this open declaration, that the grounds were removed on which the security of a metallic standard had been superseded, Mr. Pitt thought proper, in defiance of the risk, proved by the experience of all countries to be necessarily attendant upon allowing paper money to be issued, not convertible into metallic money, to continue such a paper money during the war.

This measure forms so important a part of the general subject, that it is interesting to observe what opinion was formed of it at the time in which it took place. A speech of Mr. Tierney's

* Hansard's Parliamentary History, vol. xxxiii, 1027.

gives a very true and forcible description of the true character of this measure, of which the following is an extract:—

"November 22, 1797: on the order of the day for going into a Committee on the Bank Restriction Continuance Bill, Mr. Tierney, after showing that none of the causes were then in existence on which the restriction had been adopted, said, 'So that there was not one operative cause for the order in council, which had not given way to circumstances of a directly opposite nature; and yet, with all these opposite reasons, ministers called for the same measures:'—'on these grounds he could not agree to a renewal of the restriction: for if ministers were allowed to bring through the House the same measure, on grounds so totally different, what was it but to say, that whether the course of exchange be unfavourable or favourable—whether gold goes rapidly out of the country, or gold comes rapidly into the country—whether there be a drain on the Bank, or a vast influx of bullion into it, the House must sanction the Bank in the proposed measure, and justify them in saying to the public, We, the Bank of England, owe you money, and now we have money in abundance, but will not pay you *.'"

* Hansard's Parliamentary History, vol. xxxiii, 1031.

Had Mr. Pitt duly considered the undeviating tendency of paper money, when not convertible into gold, to become excessive in quantity, and to produce, by the consequent depreciation of its value, a proportional depreciation in the value of every description of property, he would have paused before he had recourse to it. For no calamity, that could befal the country from the vicissitudes of war, short of the actual conquest of it, could be more calculated to expose it to immediate embarrassment, and ultimate ruin and bankruptcy, than letting the banks loose upon the public to issue whatever quantity of paper they pleased. But it would appear, that Mr. Pitt, having once introduced a paper standard as a substitute for a metallic one, and having experienced, for a few months, the accommodation which it afforded for carrying on the war, sacrificed to this object all other considerations. It may now, however, be affirmed, on the evidence of facts, that by thus establishing an inconvertible paper money, he took away from under the great financial, commercial, and agricultural interests of the country, the basis on which their stability rested, and exposed them to those violent fluctuations, and to those enormous losses, which have taken place in the last thirty years.

The next remarkable occurrence connected with the currency is the depreciation of the

paper of the Bank of England. The pamphlets of Mr. Boyd, Mr. Henry Thornton, and Lord King, which were published in 1802 and 1803, first called the public attention to it. These proved, that the Bank of England had issued a greater quantity of paper than was wanting; that, accordingly, it had become depreciated in its value; and, moreover, that this depreciation had produced a fall in the foreign exchanges, and a rise in the market price of bullion over the mint price, corresponding with the depreciation.

But neither his Majesty's Ministers nor the Bank Directors were willing to allow the truth of the arguments, and the soundness of the conclusions of these writers; and the Bank proceeded, without any interposition on the part of Government, still further to increase its issues.

A pamphlet, published in 1804, on the state of the Irish currency and exchange, illustrated, by several new facts and additional arguments, the principle, that a depressed foreign exchange, and a market price of bullion exceeding the mint price, were the necessary consequences of an excessive issue of paper *.

The Select Committee of the House of Commons, that was appointed in 1804 to inquire

* Principles of Currency and Exchange, by the author of this tract.

into the state of the Irish currency and exchange, adopted in their Report, after a lengthened inquiry, the same view of the subject. But the opinion of the Committee produced no effect on the Bank Directors; they went on increasing the issues of their paper to such an extent, that in the year 1810 the price of bullion rose to 4*l.* 10*s.* per ounce; and one hundred pounds in Bank notes became worth only 86*l.* 10*s.* 6*d.* in gold.

The Select Committee of the House of Commons of this year, called the Bullion Committee, confirmed in their Report the doctrines and conclusions of the Report of the Committee of 1804, by bringing forward an additional number of facts, all serving to establish the conclusion, that so great a fall in the exchanges, and so great a rise in the price of bullion as then existed, could only be accounted for by an excess in the quantity of Bank paper.

This Report, though full of sound and unanswerable arguments, led to no other result at the time than the ever-memorable resolution of the House of Commons —

"That it is the opinion of the Committee, that the promissory notes of the said Company have hitherto been, and are at this time, held in public estimation to be equivalent to the legal coin of the realm, and generally accepted as

such in all pecuniary transactions to which coin is lawfully applicable *."

His Majesty's Ministers obstinately adopted the doctrine of this resolution, as the basis of all their measures respecting the currency for several years; and it was not until the House of Commons, in the session of 1818, manifested some strong symptoms of disapprobation of the system of continued renewals, that they showed any disposision to depart from their ruinous course of endeavouring to protect the Bank of England, and to preserve for themselves the facilities that an inconvertible paper money afforded in managing the public finances.

In 1819 Ministers consented to the appointing of Committees of both Houses of Parliament, to take the subject of the currency into consideration; and in that year an Act was passed for providing for the gradual resumption of cash payments, so that all notes should become convertible into gold in the year 1821.

Although the result of this measure has been the restoration of cash payments, the recent state of the banking trade shows, that the authors of it committed a great fault in confining their attention wholly to this single object; for if effectual mea-

* Commons' Journals, May 1811.

sures had been then adopted for placing the trade of banking on a sound footing, as unquestionably they ought to have been, after the system of banking had so completely failed in 1793, 1797, and (as will be hereafter shown) in 1815, there is little reason to doubt, that paper money might have been continued in general use, from 1819 to the present time, of a value equal to that of coin, and with perfect security to the public.

In 1819 two important duties, respecting the currency, devolved upon Ministers; one of them to restore the value of it to its ancient standard value, the other to reform the system of banking*. But Ministers, evidently from having no fixed or correct notions about the principles of banking, and from not being at all aware of the defects of the system, wholly neglected to take any steps for reforming it, and confined their efforts to the making of Bank paper convertible into coin.

Ministers are, however, entitled to great praise for having established cash payments, and for having so steadily persevered in resisting the

* On the debate upon the Cash Suspension Bill, in 1819, the author of these pages recommended this reform. He said, "Had the banking concerns of this country been carried on upon the same principles of competition as prevailed in Scotland, the embarrassments of the present period would not have existed. He trusted that measures would be taken for putting an end to the Bank monopoly."—Hansard's Parliamentary Debates, vol. xl, p. 760.

attempts since made to repeal the act of 1819; but the benefit they conferred on the country would have been still greater, had the complete reformation of the banking system been undertaken by them, as a part of the measure for restoring the metallic basis of the currency.

The next important event connected with the currency is the commercial convulsion which took place at the end of 1825. This has produced the publication of various opinions respecting the causes of it, and also respecting remedies for preventing the recurrence of a similar disaster. But although the authors of them are persons who possess considerable claims upon the public for the ability they have displayed, on frequent occasions, in discussing questions of this kind, the view they have taken of the causes of over-trading, and the remedies they have proposed for the defects of the banking system is such, as to admit of strong doubts of its being right. As the examination of their opinions forms a considerable part of the following pages, a summary enumeration of them will now be given, in order to render the inquiry clear, and at the same time free from too frequent reference and repetition.

Lord Liverpool and Mr. Robinson, in their letter of the 13th of January, 1826, to the Directors of the Bank of England, say, "the principal source

of the recent distress is to be found in the rash spirit of speculation, supported, fostered, and encouraged by the country banks." They describe the English system of banking (alluding to the country banks) as "an unsolid and delusive system;" and they propose, in order "to prevent the recurrence in future of such evils" (as then existed), 1. That the issuing of one and two pound notes should be prohibited; 2. That the Bank of England should establish branch banks in the interior of the country; 3. That the Bank of England should give up its exclusive privileges, as to the number of partners engaged in banking, except within a certain distance from the metropolis.

Mr. Tooke, in his work on "The State of the Currency", says, that the Bank of England, "precisely at that time (1824) when there ought to have been a contraction," increased its issues three millions; that "this increased issue gave a fresh and powerful stimulant to the spirit of speculation, and assisted in converting an incipient delusion into absolute insanity." Mr. Tooke further says, that the country banks increased their issues, between 1822 and 1825, seven millions, and that "the enlargement of the circulating medium was sufficiently considerable in point of amount, and coincident in point of time, to account for the rise of prices in the last three years*."

* Pages 66, 48, 32, Second Edition.

Mr. Tooke proposes as remedies for the evils, which, in his opinion, "are inseparable from the present system," 1. That at the expiration of the present charter of the Bank of England, the whole system, as connected with the circulation of promissory notes, should be entirely remodelled *; and, 2. That "notes under 5*l.* should not be any longer tolerated †".

Mr. Mushet says, in his tract on the Currency, that the whole embarrassment, now existing in the commercial and money market, may be attributed to the increase of our paper money: "that in the state of the currency alone shall we find the true explanation of the state of public madness for speculation;" and he further says, that it is to the increased issues of the Bank of England, in 1824, that he is disposed to attribute the whole of the distress ‡.

Mr. Mushet proposes, as remedies of the evil, 1. That the Bank of England should be deprived of the power of lending to Government on exchequer bills, on mortgages, or on stock; 2. That no notes shall be issued under the value of 20*l.*; 3. That the trade in coined money shall be perfectly free; and that the Mint shall possess a fund to enable it, immediately upon the quantity of bullion brought into it being ascertained, by assay, to give coined money in exchange for it §;

* Page 123.
† Page 126.
‡ Pages 5 and 152.
§ Page 107.

4. That an addition should be made to the silver currency; 5. That the banking system should be thrown open to a distance exceeding sixty-five miles from London.

The writer of the article in the 86th Number of the Edinburgh Review*, on the Banking System of England, blames the Directors of the Bank of England, for having extended the issues of their paper by reducing the rate of interest on their discounts to 4 per cent.; by increasing their purchases of exchequer bills; and by lending 1,400,000*l.* on mortgages of landed property. He says, "they fell into a double error, first in attempting to force the issue of their notes at the very period when they ought to have foreseen, that the increased issues of the country banks, consequent upon the renewed prosperity of the country, would have themselves rendered the currency redundant, and occasioned a drain of bullion; and secondly, in refusing to reduce, or indeed in actually increasing, the number of their own notes in circulation for upwards of a twelvemonth after the drain for bullion had begun to operate on their coffers †."

The author of this article, and other publications on the late commercial revulsion, proposes the following measures for establishing a sound

* Mr. M'Culloch.

† Edinburgh Review, vol. xliii, p. 275.

system of currency; 1. The removal of the restriction by which more than six individuals are prevented from joining in a company for the issue of notes; 2. The obliging of every banking company to deposit in the hands of Government as much stock as shall be equal to the whole, or at the very least three-fourths of the amount of the notes for which it shall obtain stamps; 3. The making of the notes of the country banks payable in Bank of England notes; 4. The allowing of the notes of the Bank of England to be payable in bars of gold*.

Mr. Henry Drummond says, in his pamphlet on the Currency, "the late distresses originated in an excessive issue of paper, and in a consequent contraction of that paper:" that "overtrading was the necessary consequence of an inundation of depreciated paper:" that "no one can have paid any attention to the nature of currency, without being assured, that the Bank of England possesses a formidable power over the properties of its fellow subjects, which has been and can be productive of the most ruinous effects, without the possibility of conferring one redeeming benefit†."

Mr. Alexander Baring said, in his speech in the House of Commons on the 10th of February,

* Scotsman Newspaper, March 4, 1826.

† Pages 64 and 65.

1826, that the issues of the Bank of England were the main cause of the existing evils; and proposed as a remedy, that the Bank should be relieved from, what he termed, the choke produced by their making advances to Government.

No fault is to be found with the opinion of Lord Liverpool and Mr. Robinson, as far as it goes: it is quite correct to say, that a spirit of over-trading was the cause of the evil; and that the evil was supported, fostered, and encouraged, by the country banks; but they ought to have gone on to say, that the country banks were themselves encouraged to support over-trading, by the previous conduct of the Bank of England in increasing its issues, in the way described by Mr. Tooke, Mr. Mushet, and Mr. M'Culloch.

Lord Liverpool and Mr. Robinson, in calling the system of banking an unsolid and delusive system, also say what is quite correct; but they ought to have proceeded to say, that the reason which rendered it unsolid and delusive was the law which created the immense capital and power of the Bank of England, and protected it from rivalship, by the restriction, by which no more than six persons could join in a banking company for issuing bank notes.

In regard to the remedies proposed by Mr. Tooke, Mr. Mushet, and Mr. M'Culloch, they are open to this objection, namely, that

they are not the remedies which the facts they have stated, in respect to the ignorance and misconduct of the Bank Directors, obviously suggest; for, after having proved how much injury the Bank has done to the public interest, the right conclusion for them to have drawn was, that the Bank ought not to be allowed to possess any longer an uncontrolled power over the circulation.

It is in consequence of all the facts connected with the paper currency concurring to prove the ruinous influence which the Bank of England has exercised over it, and of no author having pointed this out, that these pages have been written. In them an attempt is made to explain, in a more detailed manner than has hitherto been done, what were the causes of the late distress; and to point out what are the proper measures for preventing the recurrence of similar distress. As to the causes, it will be shown—

1. That the late distress originated in a state of very prosperous trade.

2. That this prosperous trade was converted into a state of over-trading, by the miscalculations of merchants and manufacturers.

3. That over-trading was greatly extended by improper issues of paper.

4. That the greater part of the embarrassment

was owing, neither to over-trading, nor to the issue of paper, but to the system of banking, arising out of the law for regulating it.

As to preventing the recurrence of similar distress, and the reforming of this system, it will be shown that it is necessary —

1. That merchants, manufacturers, and bankers should make themselves better acquainted with that part of the science of trade, which relates to prices.

2. That the banking system should be wholly changed; first, by diminishing the capital of the Bank of England, so as to admit of new banks entering into competition with it; secondly, by allowing joint stock companies to be established in London, with the power of opening branch banks in the country, so that the capital of the metropolis may be brought into operation in supporting the country circulation; and thirdly, by requiring that every bank should give security.

His Majesty's Ministers, acting upon the opinions contained in the letter of Lord Liverpool and Mr. Robinson to the Bank Directors, carried through Parliament, in the last session, one act for suppressing notes under the value of 5*l.* after the month of April, 1829; and another act for enabling the Bank of England to establish branch banks; and also for removing the restriction, by which more than six individuals

were prevented from joining in a company for issuing bank notes, in any place sixty-five miles distant from London.

In regard to these measures it will, for the present, be sufficient to make only a few observations, as their merits will be more fully discussed in examining the principles in detail, which belong to the general question.

As to the measure for the suppressing of small notes, no objection ought to be made to it so long as a very injudicious system of banking exists, because the restriction contributes to diminish the means the system affords of doing harm; this is the only reason on which it can be justified; and by no means that of metallic money being preferable to paper money; for if the system of banking were properly reformed, then small notes ought to be allowed, as forming an essential part of a perfect system of paper currency.

That the measure of last session for abolishing small notes cannot protect the public from the abuses of banking is very obvious; because, after they shall cease to circulate, the currency will be exactly in the same state, as to the lowest sum for which a bank note may be issued, as it was in 1793 and 1797; in which years the country was involved in as great commercial and banking confusion as it has of late been.

In respect to the measure for allowing an un-

limited number of partners to form companies for issuing bank notes, at a distance of sixty-five miles from London, it is founded upon the best principles; but it is not adequate to bring about that degree of change in the system of country banks which is wanting. These banks have a strong hold over the country circulation; and there is no prospect that the country can supply the description of persons or the quantity of capital which are requisite to take it out of their hands. Until joint stock companies are formed in London, possessed of the power of establishing branch banks, and free from the overwhelming control of a National Bank, sufficient capital will not be forthcoming to supplant the weak banks which at present exist, and to prevent the establishing of new ones still weaker, the moment that trade shall take a favourable turn.

As to the Bank of England ever opening such a number of branch banks as would be sufficient to supply the country with paper, and thus to protect the public from the paper of weak banks, it is idle to expect it, while it can secure a dividend of eight per cent. by its London business. Although every branch bank which it establishes will do good, so long as a single weak bank remains, or the facility of opening new weak banks, the public will not have protection from the abuses of paper money.

These few remarks are sufficient to show, that Ministers have actually done nothing as yet, that can be considered effectual towards establishing a judicious system of banking. The error they have fallen into is, that they have hitherto confined their exertions to a feeble attempt to reform the country banks alone, without appearing to comprehend the greater evil to be remedied in the institution of the Bank of England.

SECTION II.

On Country Banks.

THE system of supplying the interior of the country with paper, issued by country banks, was not generally established till after the American war. Mr. Chalmers, in his estimate of the strength of Great Britain, after stating that the seven years preceding 1793 were seven years of the greatest prosperity, both public and private, which the nation had ever enjoyed, proceeds to give the following account of the state of the country banks in that year. He says, "In the midst of this prosperity a bank was erected in every market town; I was going to say in every village. The vast business of the country created these banks; and these banks created, by their facilities, vast business."—"The country bankers tried various projects to force a greater number of their notes into circulation than the business of the nation demanded. They destroyed, by their own imprudence, the credit of their own notes, which must ever depend on the near proportion of the demand to the supply."—"The projects and arts, by which these notes were

pushed into the circle of trade, were regarded with a very evil eye by those, who, in this management, saw great imprudence in many, and a little fraudulence in some. When suspicion stalked out to create alarm, and alarm ran about to excite panic, more than four hundred country banks sustained a shock; all were shaken; upwards of *a hundred* stopt; some of which, however, afterwards went on, in their usual course of punctual payments."—"The whole number of country banks in England was unknown; their capitals and characters were unknown; their imprudence only was known, which had already shaken their own credit *."

Mr. Macpherson, in his Annals of Commerce, speaking of the commercial convulsion of 1793, says, "Amidst the general calamity, the country banks, which were multiplied greatly beyond the demand of the country for circulating paper currency, and whose eagerness to push their notes into circulation had laid the foundation of their own misfortunes, were amongst the greatest sufferers, and consequently the greatest spreaders of distress and ruin among those connected with them †."

The Report of the Committee of the House of Commons, that was appointed to inquire into

* Page 296.

† Annals of Commerce, vol. iv, p. 266.

the commercial distress of 1793, contains a paper in which it is stated, that the failures which had taken place had begun by a run on those houses which had issued circulating paper without being possessed of sufficient capital.

The total number of bankruptcies in 1793 was one thousand nine hundred and fifty-six. The number of country bankers comprised in this number was twenty-six*; but the actual number that stopt payment was one hundred. There were twelve that failed in Yorkshire, seven in Northumberland, seven in Lincolnshire, six in Sussex, five in Lancashire, four in Northamptonshire, and the remainder in other counties†.

In the sixteen years, from 1793 to 1810, eighty-seven commissions of bankruptcy were issued against country banks. In 1810, twenty-six commissions were issued, and between 1810 and 1814, twenty-nine commissions.

In the years preceding 1813 and 1814 the country banks pursued a course of conduct precisely similar to that which terminated so perniciously in 1793. The following extract of the evidence of Mr. Wakefield, given before the Agricultural Committee of the House of Com-

* Tooke on Prices, Appendix to part i, No. vii, Second Edition.

† Annals of Commerce, vol. iv, p. 266.

mons in 1821, explains how imprudent and culpable that conduct was.

Question. "When was the period of the greatest facility of that sort of accommodation which you have alluded to?"

Answer. "Up to the year 1813 there were banks in almost all parts of England, forcing their paper into circulation at an enormous expense to themselves; and, in most instances, it had been done to their own ruin. There were bankers who gave commission, and they sent persons to the markets to take up notes of other bankers; and these people were called money changers: and commission was paid for doing it in this way. In every instance in which I have traced such commission transactions, I have found that failure has certainly ensued*."

In the years 1814, 1815, and 1816, the number of commissions of bankruptcy that were issued was six thousand six hundred and twenty-seven, of which ninety-two were commissions against country banks †.

Between the years 1816 and 1825, the number of commissions of bankruptcy that were issued against country bankers was sixty-two. In 1824

* Report of Committee on Distressed State of Agriculture, 1821, p. 213.

† Tooke on Prices, Appendix, part i, No. vii.

and 1825 the country banks again abused the power of issuing paper money, in a most unwarrantable manner; and seem to have acted with no other view than that of forcing into circulation the greatest possible quantity of it, without any regard to the means they possessed for repaying it. Mr. Tooke says, "According to the proportions here given (in the account of the stamp office) of the number of notes stamped, and assuming the common calculation, that the total amount in 1822 was about twelve millions, to be correct, the amount in 1825 would be between eighteen and nineteen millions, making an increase in the interval of between six and seven millions*.

That this increase was uncalled for and quite unjustifiable, with reference to the capital of the banks, is proved by the result; for the moment a change took place in the late prosperous course of trade, and that a pressure began on the banks for fulfilling their engagements, they were quite incapable, many of them, to pay any thing, and no less than fifty-nine commissions of bankruptcy was issued against country banks between October, 1825, and February, 1826†.

But this was not all, for it is well known, that the actual number of commissions taken out

* On Currency, p. 40.

† Sessional Papers, 1826, No. 94.

against the banks does not show the extent of the failures; but that to these should be added the private compositions, which are commonly estimated to be to the number of commissions in the proportion of four to one*.

According to this proportion, the loss which the country has sustained since 1792, by the country banks not making good their engagements, has been quite enormous. The total number of commissions issued since that year against country banks being no less than two hundred and ninety-four.

Although this statement carries with it strong evidence of the injurious consequences which may arise from the substitution of paper money for metallic money; if all the facts connected with the country banks are duly examined, in order to discover what portion of the evil should be set down to paper money, and what portion to the system of banking in England, it will be found, that they do not establish any conclusion unfavourable to the principle of the utility of paper money, or prove that the proper remedy of the evil is to diminish the proportion which paper money bears to metallic money in the circulation. The real evil is, not paper money, but the system of banking which has the management of it.

* Tooke on Prices, p. 105.

In each of the principal instances of great commercial distress already referred to, namely, in 1793, 1816, and 1825, the difficulties arising from an excess of speculation and overtrading would have been of a very different kind under a better system of banking; for it is quite evident, from the circumstances attending the distress on each of these occasions, that what aggravated these difficulties, and created the intensity of the distress, was the banks not being possessed of sufficient capital, and their suddenly failing in great numbers, just when the embarrassments of trade began.

It is worthy of observation, that in 1793, when perhaps the country banks did more injury than at any other time, no notes under five pounds were allowed to be issued; and there was between twenty and thirty millions of gold in circulation. This circumstance is sufficient to show, that paper money has much less influence in producing commercial distress than it is commonly supposed to have.

Mr. Chalmers mentions, that in 1793 Scotland did not partake of the embarrassments experienced in England*. This can only be accounted for by the superior system of banking in Scot-

* Page 303.

land; for at that time Scotland had carried her trading speculations full as far as England had carried hers; and there was no coin whatever in her circulation. If then, in the years 1793, 1816, and 1825, as good a system of banking had existed in England, although a great excess of paper might have been issued, and although over-trading might have been carried on to a great extent, it is perfectly correct to infer, that no bank would have failed, and that the distress in those years would have consequently been comparatively light to what it was.

The inferior banking system of England has been altogether created by the very impolitic regulations of the English law. In the first place, by increasing the capital of the Bank of England from 1,200,000*l.*, its original amount, to 14,686,806*l.*, its present amount, and thus investing the Bank Directors with the power of greatly increasing or suddenly contracting the currency, as they may think proper; and, in the second place, by imposing a restriction, by which no more than six persons can form a banking company for the issuing of bank notes.

In respect to the power of the Bank of England to increase its issues as it pleases, and the effect of it upon the issues of the country banks, every one, who has paid any

attention to the way in which the general circulation is regulated, will be disposed to allow, that the conduct of the Bank of England, in regard to its issues, must necessarily have great influence in regulating those of the country banks.

Mr. Henry Thornton, in his work on Public Credit, says, "the limitation of the supply of London paper is the means both of sustaining the value of London paper, and also of sustaining the value and limiting the quantity of the whole country paper*. Mr. Mushet says, "It is generally admitted, that the extension of the circulation of the country banks was entirely dependent upon an extension of the issues of the Bank of England:" "I think," he adds, "no increase or excess of the country circulation can ever be produced but by a previous extension of the issues of the Bank of England†."

The correctness of these opinions is fully established by the state of the issues of the Bank of England in the years previous to 1793, 1816, and 1825, which have been referred to as the years in which the issue of the country banks was the most in excess, and the most ruinous.

On the 25th of February, 1790, the amount of Bank of England notes in circulation was

* Page 220. † Pages 27, 28.

10,217,360*l.*; but on the 25th of February 1792, it was increased to 11,349,810*l.* *; being an increase of 1,132,450*l.*, and equal to eleven per cent., which must have contributed essentially to the great increase of country paper in that year.

In regard to the case of 1816, it appears, that the average amount of Bank of England notes in circulation, in 1812, was 23,237,000*l.*; that this was increased, in 1813, to 24,023,000*l.*, and in 1814 to 26,901,000*l.* †; the increase from 1812 to 1815 being 3,664,000*l.*

Such an increase must have contributed to encourage the country bankers to increase the issues of their paper, and may be considered, in some degree, a justification for it.

As to the case of 1825, it appears, that the amount of Bank of England notes in circulation, in April 1823, was 17,750,473*l.*, and in April 1825, 20,881,123*l.* ‡, being an increase of 3,130,650*l.* This, no doubt, mainly induced the country banks to enlarge their issues.

However pernicious, therefore, the conduct of the country banks has been in forcing the circulation of their paper in the years pre-

* Mushet on Currency, p. 11.

† Tooke on Prices, p. 42.

‡ Tooke on Currency, p. 36.

ceding the commercial difficulties of 1793, 1816, and 1825, they have a just right to say, "We were induced to make these great issues, by placing confidence in the Bank of England, and by believing that the Directors of it were the best judges of the expediency of increasing the circulation. We made no addition to the ordinary amount of our issues until we saw the Directors of the Bank of England enlarging theirs. We, at all times, have been taught by his Majesty's Ministers, and by speeches in Parliament, to regard the Directors of the Bank of England as persons possessed of the greatest wisdom in the management of the circulation; and if we have erred in increasing our issues, we have done so in consequence of regulating our conduct entirely by the course which the Bank of England pursued."

In regard to the effect of the law, which has prevented more than six persons from joining in a company for issuing bank notes, it is obvious, that it has taken away, as to the Bank of England, the great check over abuses in issuing paper money, namely, the competition of rival banks; and that it has led to the establishing of weak banks in the country. If no such law had existed, according as the trade of the country increased, large joint stock capitals would have been formed for opening banks, both in London

and the country, by collecting a number of shareholders. These banks would have issued paper of substantial value; they would have checked each other; and they would have found it their interest to prevent the establishing of weak banks. But in consequence of strong banks of this description having been prohibited, the demand for bank paper, that rose up with the increase of trade, necessarily set on foot the establishing of that inferior description of banks, which has so much abused the power of issuing paper money. This regulation therefore of the law, for limiting the number of partners in a bank, should be considered as being the real cause of that ruinous system of banking, which has occasioned such great embarrassments to trade, and such an immense loss of property: so that, in place of attempting to reform it, by such expedients as abolishing small notes, and introducing a large proportion of metallic currency, or by a partial measure for establishing joint stock companies, this regulation ought to be entirely done away, as the first measure for placing paper money on a sound footing.

By the establishing of joint stock companies in London, with the power of opening branch banks, a total change would be brought about in the system and character of country

bank paper; because in this way the capital of London would be extensively employed in giving due security to the country circulation. The paper of these banks, so supported, would soon supplant the paper now in circulation, and compel the greater part of the existing country banks to discontinue their business. This is precisely what is wanting; for nothing short of accomplishing this object, of actually suppressing the greater part of the existing banks, can be an adequate remedy of the evil*.

That the banking business would have taken the course here pointed out, if it had been left free from legislative interference, is quite evident from what has taken place in Scotland; there this business has been carried on in the most successful manner, by joint stock companies, possessing great capital, and constantly acting on a principle of rivalship and competition, in preventing each other from abusing the power of issuing paper money, by forcing too much of it into circulation.

* See the section on Joint Stock Companies, for a more detailed account of the probable advantages to be derived from them, if established in London.

SECTION III.

On the Causes of the Commercial Distress of 1825.

The time that has elapsed since the publishing of those opinions, which attribute the spirit of speculation and over-trading of 1824 and 1825 wholly to excessive issues of paper, and which have been already mentioned, has afforded an opportunity of fully examining the grounds upon which they are founded. They were naturally suggested by the facts connected with the state of the paper circulation at the end of 1825 and the beginning of 1826; namely, a great increase of paper, a great rise of prices, and the simultaneous failure of nearly one hundred country banks. But a fuller investigation of these circumstances would make it appear, that these opinions were too hastily adopted.

It is of great importance, that no error should be committed in forming a judgment respecting the causes of the distress; because it is only by arriving at a correct opinion respecting them, that a chance exists of devising means of preventing the recurrence of a similar state of things.

In respect to the disposition which appears to prevail, to condemn all speculation in trade, this evidently arises from mistaken notions of the nature of trade; because, as nothing scarcely can be produced with a certainty of the price it will bring, all trade is actually a system of never-ceasing speculation. Even a very great extent of speculation may be perfectly correct, whenever the supply of commodities falls short of the demand for them. Speculation only becomes injurious when those who embark in it do not take proper pains to ascertain the state of the demand and supply of commodities, and, in consequence, calculate on the continuance of high prices, after the causes which have made them high have ceased to exist.

In respect to the over-trading of 1824 and 1825, it may have had its origin either in high prices arising from causes wholly belonging to trade, or from an excessive issue of paper. In the following pages an attempt is made to show, that the causes were of the first kind, and not the issue of paper, which took place between 1823 and 1826.

In order to establish this conclusion, it is necessary to refer shortly to some of the acknowledged elementary principles of trade. In the first place, it is to be observed, 1. That all trade consists in supplying the demands of society for commo-

dities; 2. That the market price of commodities depends upon the proportion which their supply of them bears to the demand for them; and, 3. That the only way of making a safe speculation in trade is by first acquiring a correct knowledge of this proportion.

As trade, therefore, may be considered as wholly consisting in the transactions which arise from the demand for commodities on the one hand, and from the supplying of them on the other; it will at all times be found to be in one of the following states, according to the ratio of the supply to the demand of commodities.

1. It will be in an ordinary or natural state, when the supply and demand are nearly equal to each other; and occasion such a rate of prices for commodities, as will just repay the cost of producing them, together with the usual average rate of profit on capital employed in trade.

2. It will be in a depressed state when the supply exceeds the demand; and consequently when the prices of commodities are so low as to afford no profit to those who produce them; and in a still more depressed state when the prices will not repay the cost of production.

3. It will be in a flourishing state when the supply falls short of the demand; and when, consequently, the prices of commodities are so high as to yield a rate of profit much higher

than the usual average rate of profit on capital employed in trade.

4. It will be in a state of over-trading, when the supply, in the first instance, having fallen short of the demand, and occasioned a prosperous state of trade, the producers of commodities, after having made the supply equal the demand, in ignorance of this fact, continue to increase their productions, and add to the supply, on the erroneous calculation, that high prices will continue.

As the means of supplying commodities are continually changing, and as the demand for them is influenced by a great variety of circumstances, such as changes of habits, fashion, legislative regulations, and political events; the ratio that the one bears to the other must be for ever varying: and as the market price of commodities and the success of all speculations in trade depend upon this ratio, it is expressly the business of all persons, who are engaged in trade, to watch its movements, and make their calculations accordingly.

Although this description of the nature of trade may have the appearance of unnecessary minuteness, it is of some importance, because it is owing to the habit of omitting to keep constantly in view the state of the supply and of

the demand of commodities, that almost all the erroneous and ruinous speculations which have happened are to be attributed. And it is from a careful study of the facts, which belong to the various instances in which this principle has been lost sight of, that it may now be laid down as a general rule, that when trade is either in a very depressed state, or in a very prosperous state, every thing is contributing to produce a change, and to bring it back to its ordinary or natural state. Thus, for instance, when trade is in a depressed state, the making and importing of goods are lessened, and capital is withdrawn from being employed in these transactions; the supply of commodities is thus reduced, in a short time it ceases to exceed the demand, and prices rise. When trade, on the other hand, is in a very prosperous state, new capital is embarked in making and importing goods: and every effort is employed to render the labour of the workman as productive as possible; the supply of commodities is thus increased, in a short time it equals the demand, and prices fall.

It is when trade is in an unusually prosperous state, that the temptation to increase productions to an excess is so strong, that it is seldom suffered by merchants and manufacturers to revert quietly and gradually to an ordinary state,

without first passing into a state of over-trading. It is, therefore, just when trade is in the most prosperous state, that there exists the greatest danger of excessive speculation, and of its becoming exceedingly depressed; and it depends wholly on the judgment and conduct of the merchants and manufacturers, whether it takes its natural course of quietly and gradually reverting to an ordinary state of price and profit; or whether it goes forward into a state of ruinous over-trading.

If the merchants and manufacturers comprehend and act on the principle, that every state of trade is regulated by the ratio of supply to demand; and if they take due pains to ascertain what this ratio is, and make it the basis of their calculations, they will act, when trade has been for some time very prosperous, with peculiar caution, and look forward to a fall of prices. But if, when trade has been for some time prosperous, they wholly omit to take into their consideration what has been going forward in regard to the increasing of productions; and if they imagine, very illogically, that because prices have been and still are very high, they will be permanently high, and yield great profits, and form their speculations accordingly, they will soon glut the market, make it impracticable to effect sales, and involve themselves in the greatest distress.

The history of the trade of England for the last thirty years shows, that her merchants and manufacturers have uniformly adopted the latter course of conduct; they have on every occasion displayed a negligence of inquiry into the causes of high prices, and have acted with great imprudence in always calculating upon their continuing high, merely in consequence of their being high at the time of their making their calculations. The reason of this can only be explained by their habits of devoting their whole attention to the mere practice of trade, and neglecting to inform themselves of any of the most elementary principles of it.

All the facts belonging to the case of the distress of 1825 serve to illustrate the accuracy of this general view of the nature and causes of overtrading, and they will now be briefly enumerated.

The depressed state of trade in the years 1821 and 1822, and consequent low prices, had led to a diminished production and importation of goods, and to an advance in prices in 1823; and the very high prices of 1824 and 1825 were the result, first, of this diminished production and importation; secondly, of an improvement in the state of agricultural produce; thirdly, of the acknowledgment of the independence of the South American Republics, which opened new markets to British commerce; and lastly, of the loans

which were raised for these republics, and which were remitted in manufactured goods: all these circumstances concurred to produce an unexampled state of commercial prosperity during 1824 and the greater part of 1825.

In 1824 trade was precisely in such a state as made it the duty of all merchants and manufacturers to act with particular caution. They all knew the great efforts which had been made to increase productions; and it would have been easy for any of them to ascertain whether any great source of demand had ceased, and what was the state of the stock on hand, and thus to acquire the means of foreseeing, that it was almost certain that the very high rate of prices could not long continue. If they had made such an inquiry in 1824 they would have found, among other causes of a change, that the great demand had ceased for goods to be exported to South America as the means of remitting loans; but instead of taking any such trouble, the manufacturers of cotton, woollen, silk, iron, and it may be said of all other kinds of goods, went on increasing the productions of their respective trades; while the merchants continued to increase the importation of raw materials, and other foreign goods.

As the effect of all these efforts was to make an immense addition to the supply, beyond what

was wanting, a general glut took place, and that fall of prices, which, by depriving all the owners of goods of the means of fulfilling their engagements, produced the late stagnation and distress.

As these facts prove, that the evil of over-trading arises from calculating on the continuance of high prices, at the very time when every thing is contributing to make the supply equal to the demand and to lower price, it seems to be indispensable, as one step towards preserving the country from the recurrence of this evil, that all persons engaged in trade should make it a rule to consider a very prosperous state of trade, after it has lasted for some time, as a certain indication that the period is not distant, when an altered ratio of supply to demand will lower prices, and thus render it unsafe to extend their dealings.

As to the forming of a tolerably correct opinion while trade is prosperous, in respect to the period when it may cease to be so, no person in extensive business can have any great difficulty, if he seriously makes the attempt, to learn those facts which will enable him to calculate what the existing ratio is that the supply bears to the demand for commodities. By examining price currents, and lists showing the importations of raw materials, and other goods, and the exporta-

tions of manufacturers, and by making diligent inquiries respecting stocks in hand, and respecting the measures in progress for increasing productions, persons conversant with trade will acquire abundance of facts for forming a correct conclusion in respect to the probable state of prices.

It was not for want of due admonition that many persons involved themselves in the late difficulties; because several individuals, distinguished for their knowledge of the principles of political economy, saw the evil approaching, and took pains to apprise the public of it. Every one who had an opportunity of conversing with Mr. Tooke, in the course of the spring of 1825, can well remember with what confidence he declared, that the then existing high prices could not continue very long, and that the rage for speculation and over-trading would terminate in a serious re-action. An article that appeared in the *Scotsman* newspaper, in the spring of 1825, distinctly pointed out the convulsion which was about to happen. This was written by Mr. M'Culloch, and confirms the high reputation he has acquired for his knowledge of the science of trade, at the same time that it illustrates, in the strongest manner, the great importance of cultivating this science.

Although the explanation which is here given

of the cause of over-trading in 1824 and 1825, makes that cause to consist in an excess of demand beyond supply, and the miscalculations of merchants and manufacturers, in respect to the continuance of high prices, and in no respect in a state of high prices produced by a super-abundance of paper money, it is not intended to deny that the issue of paper was much greater than it ought to have been, and that it produced very injurious effects. The manner in which such a large issue operates, under such a state of circumstances as that which existed from 1822 to 1825, seems to be by carrying over-trading, when once begun, much further than it would go without it, in consequence of its preventing the proportion of supply and demand, when made equal, from lowering prices, and thus checking further productions as soon as it naturally would do. The facilities afforded by paper keep up, for a certain time, though probably a very short time, a fictitious state of prices; and, by thus encouraging miscalculations, lead to additional productions, when the market is actually full, and consequently give rise to a glut of commodities.

But although this is a very great evil, there was, in 1825, one still greater; for all the over-trading, and all the over-issues of paper, would

never have produced such a convulsion as took place, had the banks been able to fulfil their engagements; and it was their want of capital, and the simultaneous failure of so many of them, that occasioned, in fact, the greatest portion of the distress.

In Scotland there was as great over-trading as in England, and a great facility of obtaining accommodation from the Banks. In 1823, the highest amount of notes in circulation was 3,462,012*l.*; and in 1825, it was 4,683,212*l.**, being an increase of more than one-third: but when the system of speculation and over-trading exploded in Scotland, the great wealth of the banks enabled them to pay all demands upon them; and no such intense distress occurred as took place in England.

The injury that respectable and solvent banks do, by issuing too much paper, and extending over-trading, arises from a similar cause to that of over-trading itself, namely, negligence on the part of banks to examine into the causes of high prices, and miscalculations in respect to the continuance of them. This is quite evident from the acknowledged rules by which they regulate their issues. The Directors of the Bank of England conceive they cannot issue too much paper, while it is issued in discounting "legiti-

* House of Commons Report on Scotch Banking, p. 7.

mate mercantile paper," and the bankers of Scotland keep as much paper in circulation as they can, under their practice of exchanging each other's notes, that are paid in to them, twice a week. But it is obvious, that the observance of such rules must lead to the encouraging of over-trading; because when the state of trade is such as to give rise to over-trading, the quantity of "legitimate mercantile paper" will rapidly increase; and the additional amount of transactions in trade will keep employed a greatly augmented issue of paper.

These considerations show, that, in order to check over-trading, so far as the banks are concerned, it is necessary that bankers should abandon these rules; and that, at *all times*, when prices are very high, they should make themselves acquainted with those facts, which will enable them to judge, with some degree of accuracy, as to the probability of those prices continuing; and as to the expediency of increasing or diminishing their accommodations to trade.

Ministers have constantly been a conspicuous party in contributing to encourage and extend over-trading by their practice of boasting, whenever they have an opportunity, of the great prosperity of trade; and of speaking confidently respecting the permanency of its prosperity.

The conductors of the public press, also, seeing

every thing around them bearing the most prosperous appearance, have, very naturally, expressed themselves in such a way as to lead men of business to place confidence in the continuance of high prices, and to embark in ruinous speculations; when the actual circumstances of trade required admonitions of caution, and predictions of a fall of prices.

The error of calculating on the continuance of high prices, and a state of prosperous trade, which has been so generally committed, and has proved so ruinous in its effects, has been chiefly caused by a want of due acquaintance with the principles by which the proportion of supply and demand affect trade. The miscalculations of merchants and manufacturers arise from their adherence to a common routine of practice: they neglect the science which would teach them to refer high prices to their true causes, and which would enable them to calculate with tolerable certainty on their continuance. Over-trading has been so evidently the result of this ignorance, that its frequent recurrence affords the strongest reasons for persevering in every effort to extend and diffuse the study of that part of political economy, which includes the principles of barter and exchange. This could not fail to be of the greatest service in producing a different and improved course of conduct amongst all persons in trade,

or possessing any influence over its operations, whenever the circumstances of it were such as to produce a strong temptation to over-trading*.

Although what has now been stated on the subject of the late distress is sufficient to explain the nature and cause of over-trading, it is a subject of such great importance, that no apology will be made for referring to some additional facts, in order still further to illustrate the principles which have been advanced. These facts are supplied by the history of the trade of this country during the last twenty years, and are particularly deserving of being introduced into this inquiry. They prove, that a similar state of over-trading has taken place since 1807, in 1809 and 1810, in 1813 and 1814, and in 1817. They also prove, that on each of these occasions there was an excess of demand beyond supply; very high prices; a state of very prosperous trade; and then an excessive over-trading: and, further, that, in consequence of over-trading, there was

* The French Government, highly to its credit, has appointed M. J. B. Say, Professor of Political Economy. He gives an annual course of lectures at Paris, on the application of the Science of Political Economy to National Industry, to which all persons are admitted gratis. This example is well worthy of the imitation of his Majesty's Ministers; particularly after the late distress has proved how much the prevailing ignorance of this science contributed to that distress.

a glut of commodities; very low prices; and, in the conclusion, numerous bankruptcies and universal distress. They prove, moreover, that there was the same stagnation in foreign markets as that which has followed the distress in 1825; so that, upon the whole, there is a perfect analogy between these instances of great commercial distress and the distress of 1825.

In the year 1807, the prices of commodities in general were only a little higher than the ordinary level of prices, one year with another, prior to the restriction of cash payments in 1797. There was a small exceeding, but this was to be accounted for by the existing difference between the value of bank paper and that of gold*.

Prices began to rise in 1808, and became very high in 1810. Trade, in consequence, became very good in the beginning of 1808; and continued so for a period of nearly two years and a half, up to the summer of 1810.

The rise of prices in 1808 was owing, first, to an excess of demand beyond supply in 1807†: and, secondly, to the opening of new markets for British and colonial productions. The scantiness of supply was occasioned by the war, the orders in council, and by the anti-commercial decrees of Buonaparte having excluded Great Bri-

* Tooke on Prices, p. 61. † Ibid. p. 75.

tain from all direct commercial intercourse with every country in Europe, Sweden excepted*. The new markets were the result of the transfer of the seat of government from Portugal to the Brazils, and the virtual emancipation of the Spanish colonies†.

But the prosperous state of trade of 1809 and 1810 was converted into a state of over-trading by the merchants and manufacturers imagining, that the high range of prices would be permanent; and extending their speculations by all the means in their power. The consequence was a glut of commodities, a fall of prices, numerous bankruptcies, and, by the beginning of 1811, universal distress.

The effect of this distress was such a diminution in the production of commodities, by the loss and withdrawing of capital, as to produce a scarcity of many leading articles‡, and to cause an improvement in prices; and the ports of the Baltic being opened in 1812, these circumstances occasioned a demand for goods that exceeded the supply, and the rise of prices which took place in 1812. Prices advanced and became very high in 1813, and continued so till the summer of 1814. But the merchants and manufacturers again produced a state of excessive

* Tooke on Prices, p. 69. † Ibid. p. 72.

‡ Ibid. p. 91.

over-trading, by extending their speculations, upon the supposition that the high prices would be permanent. The consequence was exactly the same as in 1810, namely, a glut of commodities in 1815, a fall of prices, numerous bankruptcies, and general distress.

The extreme depression of trade at this period was followed, as it was in 1811, by the withdrawing of capital; and by the stocks of importers, dealers, and manufacturers, becoming considerably reduced, the supply of several articles became evidently below the average consumption*; and in consequence of a demand taking place about the same time for shipments to the United States of America, and to the East Indies, the demand for commodities again so much exceeded the supply, that prices were restored in the beginning of 1817, and continued to advance till the autumn of 1818. But this prosperous state of trade was again turned into a state of excessive over-trading, by the miscalculations of the merchants and manufacturers respecting the permanency of the high prices, and a glut of commodities again took place, and the country was again involved in general distress in 1819.

This statement of facts, when connected with the explanation which has been given of the

* Tooke on Prices, p. 109.

cause of over-trading in 1825, shows, that, during the last twenty years, trade has been continually changing, from one extreme to another. It has been at four periods in an extremely prosperous state, namely, in 1809, 1813, 1817, and 1825; and at four others in an extremely depressed state, namely, in 1811, 1816, 1819, and the end of 1825. The tables of prices, and of exportations and importations, show a corresponding state of extremes as to elevation and depression of prices, and as to the quantity of goods imported and exported, with those great fluctuations in the prosperity and depression of trade.

Every person, who has read the public journals during the last year, must be fully acquainted with the effect produced by the distress of England, in depressing all foreign markets. In Germany, France, Switzerland, and America, no goods could be sold with a profit, and numerous bankruptcies have taken place. An opinion may be formed of what the effect of former periods of distress in England was on foreign markets, from the following extract from M. Sismondi's work on the Principles of Political Economy; which also further proves the analogy between the case of 1825 and the other cases:—

"Nous avons vu les marchandises de tout genre, mais sur-tout celles de l'Angleterre, la

grande puissance manufacturière, abonder sur tous les marchés de l'Italie, dans une proportion tellement supérieure aux demandes, que les marchands, pour rentrer dans une partie de leurs fonds, ont été obligés de les céder avec un quart ous un tiers de perte, au lieu de bénéfice. Le torrent du commerce, repoussé de l'Italie, s'est jeté sur l'Allemagne, sur la Russie, sur le Brazil, et y a bientôt rencontré les mêmes obstacles."— " Au mois d'Août, ou se plaignait, au Cap de Bonne-Esperance, que tous les magazins étaient remplis Européennes, qu'on offrait à plus bas prix qu'en Europe, sans pouvoir les vendre. Au mois de Juin, à Calcutta, les plaintes du Commerce étaient de même nature."—" Le voyage de M. Fearon dans les Etats Unis presente d'une manière plus frappante encore ce spectacle *."

As these great fluctuations in trade, since 1807, have been contemporaneous with the modern paper money system that was introduced in 1797, they have no doubt been much connected with it. The Bank of England, by taking the lead, and the country banks by imitating it, in issuing a superabundance of paper, and thus carrying confidence and credit to their utmost limits, whenever trade was in a prosperous state, must have promoted its progress into a state of

* Nouveaux Principes d'Economie Politique, tom. i, p. 337.

over-trading. But Mr. Tooke has proved, in a most conclusive manner, in his work on High and Low Prices, that the high prices and excessive over-trading of the years 1809, 1813, and 1817, did not originate in issues of paper; though he admits that they were excessive, and affected prices to the extent of the depreciation of paper, as expressed by the high price of gold.

As to the over-trading of 1825, this case is so completely analogous, in all its circumstances, to those of 1809, 1813, and 1817, that it is perfectly correct to come to a similar conclusion in respect to it; and to say, that it was not the result of the issues of bank paper between 1822 and 1826, great as those issues certainly were.

As, however, an opinion is entertained quite opposite to this by many persons of high authority on these subjects, it is right to examine the grounds on which it is founded, and to see whether the principles to which they refer will justify their conclusion.

These persons do not oppose the doctrine, that high prices were the proximate cause of the over-trading; and therefore the question in dispute is, what gave rise to these prices; whether excessive issues of paper, or the state of the supply and demand for commodities?

According to the acknowledged theory of money, when the value of money is diminished,

the prices of commodities of every kind and description, without any exception, rise in a corresponding degree. A reference, therefore, to this principle alone will go far towards deciding the question; for if the prices of all things had risen in 1824 and 1825, no other conclusion could be come to, but that money was depreciated; whereas, if the prices of some articles of very general use did not rise, then the conclusion must be, that money was not depreciated.

On this latter point, Mr. Tooke's Tract on Currency affords exactly the evidence that is wanting. He shows, by a reference to facts, that "while the prices of all commodities, which rose between the close of 1824, and the first three or four months of 1825, from 30 to 50, and in many instances as high as 100 per cent., had fallen, in the last three months of 1825, to or below the level from which they rose, the prices of corn and meat varied very little *."

Here, then; the best possible proof is supplied, that the currency was not depreciated; for if it had been depreciated to the extent assumed, it must have altered the prices of corn and meat in the same degree as it altered all other prices.

The same conclusion is obtained by referring to another criterion of the value of currency,

* Page 39.

namely, the state of the foreign exchanges. It appears from an account given by Mr. Mushet, in the Appendix to his Tract on the Currency*, that between the 3d of January 1823, and the 30th of December 1825, the exchange between Paris and London was never lower than 25 francs, 15 cents. which is as nearly as possible the par; and that the exchange between Hamburgh and London, during the same period, was never below 36. 6., which is above par †. But it is absolutely impossible, that the exchanges could have continued so high, if the currency had been so depreciated as to have raised prices to the extent to which it is affirmed it did raise them.

There remain two more reasons to show, that, notwithstanding the quantity of paper was very much increased, paper was not depreciated. First, the increase of transactions which took place at the same time was so great as to give full employment to the whole of the paper. Secondly if bank notes had become so depreciated as to raise all prices 20 or 30 per cent., as it is said they did, the price of bullion must also have risen, and made it the interest of every man

* No. I.

† "The fixed par is taken at 34 schellings 11 grotes and ½, which is esteemed the true par by the merchants."—Article Exchange, Supp. Ency. Brit. vol. iv, p. 232.

who held a bank note to require gold for it; but no such drain on the banks took place.

The reasons which have now been given, for explaining the causes of over-trading and commercial distress, show how unfounded those opinions are, according to which this distress is assumed to be a proof of the decline of the commercial superiority of England. So far from this being the case, it is undeniable, that the real origin of the distress consists in her superabundant wealth, and in her power to produce all kinds of valuable commodities being much too great for the demand, though this demand comes from nearly all the markets of the world.

This explanation also shows how groundless the opinions are of those persons, who attribute the late distress to the amount of the national debt and of the taxes. The late long period of commercial prosperity, from 1822 to the end of 1825, is evidence, that the influence of the debt is not so pernicious as they suppose it to be. In point of fact, the payment of the dividends on it is a mere transfer of so much money from one set of individuals to another, and serves, in no degree, to diminish the wealth of the country.

When, at public meetings, one manufacturer after another, in speaking of the distressed state of trade, attributes it to the national debt, they know very well that all that is wanting is an increase of orders to clear their warehouses;

and that, after these arrived, no man would any longer occupy himself in trying to prove that the funding system was the cause of over-production.

As to the taxes, it is not the amount of them, but the peculiar nature of some of them, which is injurious to trade and manufactures. There are, no doubt, many taxes, duties, and prohibitions, which contribute to raise wages, or which fall on raw materials, and which, therefore, are very injurious, and ought to be revised. The duties on foreign goods directly serve to restrain the sale and exportation of British manufactures, and in this way are a main cause of distress. But this is so important a topic, and has so much influence on the interests of our manufactures, that it will be made the subject of a separate section.

If the taxes were so imposed, that they should not fall on raw materials or corn, nor greatly interfere with the consumption of foreign goods, it is possible that the manufactures of this country would not be at all injured by the levying of fifty millions of annual revenue.

The explanation that is here given of the causes of distress likewise serves to show how little reason there is for that habit of despondency, which constantly prevails in times of peculiar depression; because, at the very moment in which it is greatest, the remedy of the evil is most actively in operation; namely, an immense consumption of every

kind of goods, in consequence of their cheapness, and a diminished exertion to keep up the stock of them.

Although scarcely a year has elapsed since the distress of 1825 first showed itself, the daily journals contain accounts of every branch of manufacture being already more or less revived. It is worthy of remark, that among the numerous causes of low prices and distress, no one has attributed them to the loss of a single foreign market, or to diminished consumption at home. In place of the consumption of goods having fallen off, it has probably been greatly increased, for the reason just stated; and as, at the same time, the production of goods has everywhere been reduced as low as possible, these two causes, by their concurrent operation, will, without doubt, soon restore the ratio of supply to demand to such a state as to secure higher and remunerating prices*.

* The following observation of M. Say is very applicable to this part of the subject. — "Je remarquerai en même temps que, quoique le mal soit grand, il peut paraître encore plus grand qu'il n'est. Les marchandises qui surabondent dans les marchés de l'univers, peuvent frapper les yeux par leur masse, effrayer le commerce par l'avilissement de leurs prix, et n'être pourtant qu'une fort petite partie du marchandises faites et consommées en chaque genre. Il n'y a pas de magasin qui ne se vidât en peu de temps, si toute espèce de production de la marchandise qu'il contient venait à cesser simultanément dans tous les lieux du monde." — Lettres a M. Malthus, p. 121.

SECTION IV.

On the Effect of High Duties on Foreign Goods, in contributing to the Stagnation of Trade.

ALTHOUGH the facts belonging to the late case of over-trading show, that the cause of it was the miscalculations of the merchants and manufacturers; and lead to the conclusion, that the recurrence of it may be prevented by more caution on their part; since, at the same time, the real evil is producing more goods than can be sold with a profit; a still better remedy for it evidently would be, to extend the market for British manufactures, so that the whole that the capital, machinery, and labour of the United Kingdom can produce, may find a regular and profitable sale.

The experience of the last twenty years proves, that the capital, machinery, and labour of the United Kingdom are able to produce a much larger quantity of manufactures than, upon an average of years, the consumption requires, at such prices as will afford a profit upon them; and it is this circumstance, evidently, that has

produced, from time to time, a tendency to over-trading, and those extremes of depression and prosperity, which trade during that period has arrived at. When circumstances arise to set the whole power of the country to work in increasing manufactures, it is probably able to produce as much in one year as is sufficient for the average demand for two or three years; and, therefore, every thing ought to be done that can be done to increase this demand.

In regard to the home consumption, as there are no restrictions upon it, no legislative measure could increase it; but it is far otherwise in respect to colonial and foreign markets; as will now be shown by stating in what manner the existing laws render the demand in them for British goods much less than it naturally ought to be.

As the only inducement to export British manufactures is the value that can be received in return, the quantity and value of them that can be exported must necessarily be limited by the quantity and value of foreign goods which are imported, as there is no other means of paying for them; for this reason, it is not the allowing of British goods to be exported free of duty, but the consumption of colonial and foreign goods in the United Kingdom, which determines the quantity of British manufactures that can be

exported (agricultural produce being always too dear to find a market abroad); and therefore every regulation of the law, which serves to restrain in any degree the consumption of foreign goods, restrains in the same degree the sale of British manufactures for exportation.

If a law were passed wholly to prohibit the importation of colonial and foreign goods, the inevitable consequence would be, that no British goods whatever could be exported; because there would exist no means of receiving payment for them. So, for the same reason, every law that partakes of the character of such a law, and in any respect serves to diminish the consumption of foreign goods in the United Kingdom, contributes to diminish, in the same degree, the power of exporting and selling with a profit as large a quantity of British manufactures as could otherwise be sold.

Now, in point of fact, although there is no law wholly to prohibit the importation of foreign goods, the duties upon them go a very great way towards prohibiting or diminishing the consumption of most of them. There is, at this moment, no colonial or foreign article, except some materials of manufacture, the consumption of which in the United Kingdom is not restricted. The law that was passed in 1825, for altering the duties on foreign goods, though commonly

supposed to have established free trade, did little more than change a system of absolute prohibition into a system of prohibitory duties: it has imposed on all foreign manufactures, with a few exceptions, a duty of 30 per cent.; which, with the merchants' charges, is little short of a prohibitory duty. Some very highly finished goods may be imported under it; but nothing like a general consumption of foreign goods has or can take place. This new law has also imposed equally high, and in some instances higher duties, on almost all articles of luxury and taste, and prohibits nearly all foreign articles of food. Such a law must have the effect of rendering the consumption of foreign goods little or nothing, in comparison to what it would be if no such high duties and prohibitions existed.

If all the duties on colonial and foreign goods were so reduced as to add to their price not more than about a twentieth part of what it would be without a duty, no doubt can be entertained, that the consumption of them would increase immensely. If French wines could be imported, so that the lighter kinds might be sold at from one shilling to three shillings a bottle, in place of importing 1000 tuns, which is the present amount, 15,000 tuns at least would proba-

bly be imported as formerly, in the reign of William III*. Hundreds of other articles might be mentioned, of which the consumption would increase, if the duties were lowered: but for every twenty shillings worth of a foreign article so imported, in addition to what is now imported, there must be exported a twenty shillings worth of a British article to pay for it; and therefore, while, on the one hand, the existing duties establish a most injurious boundary to the means of selling British goods, and thus contribute to the recurrence of distress; on the other hand, reducing them, in the way proposed, would create such a new demand for them, all over the world, as would probably keep constantly employed, with a profitable return, the whole power of the United Kingdom, in producing every description of manufacture.

If this course of policy were adopted, there is no calculating to what a degree the demand for British manufactures would extend itself in the British possessions abroad and in foreign countries: for the existing system of duties not only fixes a limit to the production of British

* "L'Angleterre consommait, en 1688, plus de 15,000 tonneaux de vin de France." — "L'Angleterre n'a reçu que 1000 tonneaux en 1823." — *Du Commerce Exterieur, par M. D. L. Rodet*, p. 79.

goods, but also to the productions of foreign countries. If these duties were lowered, and the consumption of foreign goods in England was greatly increased, every foreign country would immediately increase its productions, and thus become a richer customer for British goods; and no more would be heard of the markets of Germany, Italy, America, or the East Indies, being loaded with British goods that could not be sold, except at a loss; because, when the goods of these countries can be sent to the United Kingdom, the inhabitants of them will immediately increase the production of them, in order to give them in payment for the goods which they will see in abundance in their markets. In this way the progress of the increase of foreign productions will keep pace with that of British productions; and the lowering of the duties on foreign goods in the United Kingdom will thus contribute directly to increase, to an immense extent, the industry, wealth, civilization, and happiness, not only of the United Kingdom, by increasing the demand for her productions, but also the industry, wealth, civilization, and happiness of every other part of the world.

This view of the injurious effects of the system of high duties, on the production of the foreign possessions of Great Britain and of

foreign countries, affords another strong reason, in addition to the many that have heretofore been given, in other places, for showing the necessity of reducing the whole of these duties to a very low rate; and it is, therefore, high time for Parliament to depart from the practice of submitting to the control of prejudice and private interests, and to do away at once with all restrictions that prevent the free use of every thing which every foreign country can supply.

SECTION V.

On a Metallic Currency.

One of the consequences of the late commercial distress has been, a very general distrust of the policy of employing paper money, and an anxiety to establish a large proportion of metallic currency, as part of the currency of England; but as the effect of legislating on such a feeling would be to deprive the public in a great measure of the valuable assistance which paper money affords to industry and trade, it is highly necessary to give the subject some further consideration, before any decided opinion is formed in favour of the advantages of a metallic currency over a currency of paper.

That a metallic currency has some advantages over a paper currency is unquestionably true, but it is accompanied with many disadvantages. The operation of carrying coin from place to place, the necessity of examining the genuineness and weight of it, and of counting it piece by piece on every occasion of receiving or paying

money, are great inconveniences. Besides, the history of every country affords numerous instances of the injuries which have been suffered from the mal-administration of it.

The levying of large sums under the plea of brassage and seignorage, and the evils resulting from alterations in the established standards of money, occupy the pages of all writers in the early part of the eighteenth century, on the subject of money. In consequence of these alterations, at different periods, our present pound sterling is only a little more than one-third of its original value. The florin, the money of account in most parts of Germany, is six times less than it originally was. Scotland, prior to the Union, had debased its pound to a thirty-sixth part; the French livre has been reduced to a seventy-fourth of its original value; the Spanish maravedi to less than a one-thousandth; and the Portuguese real has suffered still more*. But as none of these alterations have taken place without altering the value of all property, both public and private interests must have suffered immensely.

A metallic currency not only deprives a country of one of the best supports of industry, namely, the assistance of the discounts and loans of bankers, but it occasions a great loss to the public

* Ed. Rev., vol. vii, p. 275.

in maintaining it. If the currency of the United Kingdom were wholly metallic, it would, at least, require fifty millions of sovereigns; but this amount of the national capital, when so employed, would become dead stock, and wholly unproductive of any demand for labour, or in making any profitable return. The loss to the nation, in consequence of thus employing so much of its capital in dead stock, would be, taking the average rate of profit on capital employed in trade so low as six per cent., three millions a year; and to this must be added a further annual sum of at least one million, to make good the expense of new coinage, from the injury the coin would suffer by wear, by fires, shipwrecks, and other casualties.

It may be further observed, respecting a metallic currency, that it does not protect a country from being exposed to excessive speculation and over-trading. In periods of confidence and great commercial prosperity, all persons in trade have recourse to the extensive use of private paper, such as bills of exchange and promissory notes; and by multiplying these they are able to carry over-trading to as great an extent as they please*.

* The following is an extract from the evidence given by Mr. Gladstane, before the Committee on Scotch banking:—

Question. "You have stated, that a very great proportion of the circulation of Lancashire consists of bills of exchange;

Mr. Tooke, in his work on High and Low Prices, says, "What occurred at Hamburgh, at the close of the last century, is a proof, that even a purely metallic currency admits of a large superstructure of private paper and credit, which may be subject to sudden contraction and extension. The bank of that city presents an example of the most correct regulation of a metallic standard that has hitherto been known: there is no paper whatever current as money; yet, under circumstances favourable to speculation, there was a very great increase of its general circulation, through the medium of private paper, and of transactions on credit, in the years 1797 and 1798." After describing an extensive system of over-trading that was then carried on, especially

what is the lowest denomination of bills of exchange generally used in the circulation of that district?"—*Answer.* "We have them of all denominations. The manufacturers are, some of them, in the habit of deriving their supplies of bank notes and gold, for the payment of their people, from shopkeepers, and they draw bills, according to the amount that may be convenient for them, on their agents in London. Tradesmen of other descriptions are also in the practice of drawing bills for their payments, as may suit their convenience, and in consequence we have a considerable amount of small bills; I call them small from 10*l.* up to 50*l.*; between these sums we have a considerable circulation in the county, which pass from hand to hand, so fully indorsed, that before their maturity it is hardly possible to add another name."—Report, &c. p. 222.

in colonial produce, and a fall of prices, Mr. Tooke proceeds to say, "The inevitable result was a destruction of the paper which had been created there, and which had extended itself, along with the speculation, to other towns of Germany, and to some in Holland: these, therefore, participated in the reaction. The number of houses that failed at Hamburgh, between August and November 1799, was eighty-two, and the amount of their engagements upwards of 29,500,000*l.* banco marks, or about 2,500,000*l.* sterling. The rate of discount rose, during that period, to 15 per cent."—"I might mention other instances, such as the failures at Paris, and in other parts of the Continent, in 1818 *."

In the Gentleman's Magazine, and Annual Register, there are descriptions given of three great commercial revulsions which originated on the Continent, where the currency was wholly metallic; the first in 1763; the second in 1771-2; the third in 1778-9.

* Tooke on Prices, p. 123.

SECTION VI.

On Paper Money.

THE history of the progress of paper money shows, that the first circulating paper existed under the name of bills of exchange, or promissory notes; and that it had its origin in those pecuniary engagements, which form a part of the credit which subsists among commercial men with regard to their commercial transactions. It was soon discovered that these bills, or notes, were susceptible of a more extended use than that of merely recording and recovering debts; and, in consequence, they were made an effective medium of exchange in all payments of a large amount. Having gone so far, an obvious improvement presented itself, which was, to render them, by a small change in their form, applicable to the ordinary payments in which the precious metals were employed; this improvement was put in execution, and thus the use of promissory notes of bankers for performing the same purposes as a metallic currency was established.

This introduction of the use of paper money

may justly be considered as one of the most beneficial of all the expedients to which human ingenuity, in improving the relations of society, has given birth; and as coined metals were substituted for barter in the first stages of the civilization of mankind, it may be expected, as the world becomes more and more refined, that paper money will be substituted universally for coin.

The advantages of paper money may be illustrated by supposing a case of two merchants; one residing in a country where paper money is extensively in use, and the other residing in a country where the currency is wholly metallic, and both employing equal stocks in the same trade. The former can, without imprudence, carry on a greater trade, and give employment to a greater number of people: the latter merchant must always keep by him a considerable sum of money, in order to answer the demands continually coming in for payment of the goods which he purchases on credit. By being obliged to keep so considerable a sum unemployed, he must sell in the year less goods than he might otherwise have sold; his annual profits must be less; and the number of people employed by him, in preparing his goods for the market, must be less. The former merchant, on the other hand, keeps very little money un-

employed for answering occasional demands: when they come in, he gets a bill discounted by his banker. With the same stock, therefore, he can have at all times in his warehouse a larger quantity of goods than the other merchant; he can thereby both make a greater profit for himself, and give employment to a greater number of people.

All writers upon the commerce of these countries have attributed a great share of its rapid progress to the use of paper money. Adam Smith says, "by substituting paper in the room of a great part of the gold and silver money, a great part of this dead stock is converted into active and productive stock."—"When, by the substitution of paper, the gold and silver necessary for circulation is reduced to perhaps a fifth of its former quantity, if the value of only the greater part of the other four-fifths be added to the funds which are destined for the maintenance of industry, it must make a very considerable addition to the quantity of that industry; and, consequently, to the value of the annual produce of land and labour *."

Mr. Ricardo says, "A currency is in its most perfect state when it consists of paper money, but of a paper money of equal value with the

* Vol. i, p. 293.

gold which it professes to represent. The use of paper money in place of gold substitutes the cheapest in place of the most expensive medium; and enables the country, without loss to individuals, to exchange all the gold, which it before used for this purpose, for raw materials, instruments, and food, by which both its wealth and enjoyments are increased *."

The use of paper money in England, notwithstanding the great defects of the banking system, has unquestionably assisted in producing those energies in trade and commerce, by which she has become so elevated in the rank of nations; and it may be fairly assumed, that without the aid of paper money it would have been impossible for her to have carried on her immense dealings; for the facilities paper money affords in the circulation and exchange of every article of production are beyond all calculation. The main foundation of trade is credit; and as the necessary effect of paper money is to encourage the extension of commercial credit, the more widely the circulation of paper is extended, the more the transactions of trade will be increased, and the productive industry and wealth of the country augmented.

Although the instances are numerous, not only in England, but in other countries, of great

* Principles, &c. p. 433.

public injury being the consequence of the use of paper money, it will be found on examination, that the cause of the evil in every one of them has been some defect in the laws under which it has been issued. In respect to England, sufficient has already been said to show, that the whole of her losses from paper money may be set down to the impolitic regulations of the law of banking. In the United States of America, where the issuing of paper money has been even more abused than in England, Government has been the cause of it, either in consequence of being the party who issued it, or by interfering to relieve the private banks from paying in specie, or from discharging their debts. But in America there exist instances of paper money being used with the most complete security and success. The paper money of Massachusetts is supplied by forty-six banks; and although they issue notes for so small a sum as a dollar, they remained solvent and prosperous during the convulsions that the American trade experienced in the last war. Their notes, at that period, were readily discounted throughout all America, at a rate that was merely sufficient, with common interest, to cover the expenses of their transmission home*.

* "*Heads of Information on the System of Banking adopted in the United States.*

"The system of banking adopted in Massachusetts being

What has taken place in Scotland, respecting paper money, places beyond all doubt the be-

acknowledged to be, among the North American States, the best adapted to its end, the following remarks will chiefly apply to that State; in which, by judicious regulations, the alleged impossibility of the co-existence of a paper and metallic currency of the same denomination is not felt, the legislature being enabled, indirectly, so to control the issues as to prevent any excessive diminution of specie.

"The paper currency of Massachusetts, which includes a population of 700,000 individuals, is supplied by forty-six chartered banks, fourteen in Boston, the remaining thirty-two in the other towns and country at large. The specie represented by paper is the eagle, value ten dollars, the half eagle, and the silver dollar. In the medium rate of exchange the dollar may be valued at four shillings and sixpence.

"The capital of these banks averages 750,000 dollars each, and their average issues may be estimated at 500,000 dollars, though many greatly exceed this sum. All the banks issue dollar-notes, and many never issue any of any other denomination. All the notes are unstamped, and the mean time of their circulation is about two years.

"The country notes circulate freely in Boston (although not payable there), for the purposes of trade; and there is one house, which has devoted itself exclusively to discount them at a rate sufficient to defray the charges of transmitting them to their respective firms, which rate varies according to their distance from Boston, between one-eighth and one per cent.

"The capital embarked is specified in each charter and paid up before it is granted, and no subsequent change can take place in this specified sum without a corresponding enactment. Every partner is responsible in his private for-

nefit and security which a country may derive from it. The extensive use that is there made of paper money, without any coin being in circu-

tune for the engagements of the firm. In the front of each charter stands the proviso, that a single refusal of the payment of specie on demand for a note, shall, *ipso facto*, operate as a forfeiture of the charter.

" An attested return of the amount of debts, credits, and specie in hand, is deposited yearly by each firm, in the office of the Secretary of State, who lays these returns before the legislature at the opening of the Session. If any thing unsatisfactory appears on the face of these statements, a motion is agreed to, of course, for a committee to examine and report on the solvency of the firm. This report, containing the amount of specie in their possession, &c. is published. One third in specie of the notes in circulation is, in an average case, considered a satisfactory return. Rather more than twenty years ago, about half the banks were unrestricted; but this plan was soon abandoned, not, however, before many of them had failed. Since the establishment of the first chartered bank, there has been but one instance of a failure among them, which ensued upon the connection of the bank in question, which was a small one, with an unrestricted one in Rhode Island. Most of the other states now employ chartered banks, with greater or less deviation from the Massachusetts system, and, in most cases, with corresponding degrees of inconvenience. The forfeiture of the charters on non-payment of specie is nowhere insisted on, but in Massachusetts and Maine: in New York (unless recently) and the Western States, there is no annual examination of the balance sheet by the legislature.

During the whole of the late war, Massachusetts, Connec-

lation, and the fact, that in the course of one hundred and thirty years, that it has been used in Scotland, the whole loss which the public has

ticut, New Hampshire, and Rhode Island, persisted in cash payments; the other States suspended theirs; the consequence of which was, that in New York itself, the New York notes and those of the other Southern States suffered a depreciation in respect of those of Massachusetts, varying from fifteen to twenty-five per cent.; yet the Massachusetts bankers continued their cash payments without inconvenience, nor did they in the least experience any share in the distress and ruin universally entailed on their neighbours by the variation of prices in the transition from war to peace.

"In Kentucky, where the system is entirely unrestricted, the results have been still more disastrous; the banks there are forty in number, and owing to their improvident conduct, about six years ago, the metallic currency disappeared from circulation, and the paper suffering excessive depreciation, the inhabitants were reduced to the primitive processes of barter, from which state they have hardly yet recovered.

"Amid these convulsions, the paper currency of Massachusetts has never, for a moment, suffered depreciation; her banks, as stated above, have remained solvent and prosperous, and her notes are everywhere throughout the Union readily discounted, at the rate necessary to cover the expenses of their transmission home. In consequence of the system of inspection above-mentioned, large shipments of silver out of the country (which are necessary in the trade with China and the East Indies) are uniformly attended with a voluntary contraction of the issues; and although dollars for exportation are generally at a premium of from 2 to 5 per cent., which would be expected speedily to have the effect of draining the country of them, yet no want is ever experienced; and a

sustained by the failure of banks amounts to no more than thirty-six thousand three hundred and forty-four pounds*, completely sustains the truth of this statement.

But although the great advantages of employing paper, and the security with which it may be employed, are thus placed beyond all doubt, the work remains to be performed of devising some plan of banking for England, by which the public may be protected from the abuses of paper money.

The chief part of the difficulty of establishing a safe system of banking, arises from the trade being profitable according to the proportion in which the amount of notes, that is kept in circulation by a bank, exceeds the amount of capital which is kept in reserve for the payment of them. This circumstance attaches to it an ele-

remarkable instance is on record, about twelve or fourteen years ago, of their being actually sustained in circulation by the importations of the bankers themselves.

" Such are the results and practical operation of this system, which has occasioned, that, for uniform commercial prosperity, Boston and the State of Massachusetts stand almost unrivalled in the mercantile world, notwithstanding that her natural advantages are, probably, inferior to those of any other commercial country "—(The foregoing is a copy of a printed paper, dated 69, Fleet Street. Feb. 22, 1826.)

* Committee of the House of Commons on Scotch Banking, Evidence of J. G. Craig, 1826, p. 270.

ment of insecurity, because it acts continually as a powerful stimulus in tempting bankers to issue more notes than in prudence they ought to do. And even when banks resist this temptation, and act on the most prudent principles, the trade is of such a nature, that they are nevertheless exposed to great difficulties by sudden and unforeseen demands, and the alarms which may arise in times of distress or danger.

But notwithstanding this trade of issuing paper money is one which exposes those who follow it, as well as the public, to great losses, what has happened in America and Scotland affords a sufficient experience of its success, under a judicious system of banking, fully to justify the opinion of Adam Smith, that "if bankers are restrained from issuing any circulating bank notes, or notes payable to the bearer, for less than a certain sum; and if they are subjected to the obligation of an immediate and unconditional payment of such bank notes, as soon as presented, their trade may, with safety to the public, be rendered in all other respects perfectly free*."

The following statement has been drawn up, in order to explain how so free a banking trade would be safe (supposing the only restriction to be that of the use of notes for less than twenty

* Vol. i, p. 498.

shillings) from the evils, which are commonly supposed to be inseparable from paper money.

The objects to be secured by a perfect system of banking and paper currency are; 1. A sufficient capital; 2. Protection against over issues; 3. An efficient convertibility into gold; 4. Protection from fluctuations; 5. Protection against the opening of weak banks; 6. Protection against panics.

1. As the profit on banking is certain, when the trade is free, capital will flow into it in abundance; for if it did not, the profit on banking would soon be greater than the profit upon any other trade, and there would thus be two rates of profit in the same country; but this has been clearly proved by all writers on Political Economy to be impossible. Large joint stock companies would be formed, and the individual liability of each shareholder would afford full protection to the public.

2. The quantity of paper that would be issued under so free a system would be limited, in a proper degree, by its being the interest of each bank, not only to keep its own issues within bounds, but to exert all its power in preventing every other bank from forcing too much of its paper into circulation.

After the principle of profit establishes in a country a number of banking companies with

large capitals, each bank will daily have paid into it the notes of some of the other banks; but no bank will reissue these notes, because it would be throwing away, by doing so, the opportunity of making profit by issuing its own notes; The banks will therefore be driven to exchange the notes so paid in with each other; and every bank, that has a balance against it, will be under the necessity of paying the amount of that balance in gold, because the bank that has to receive payment will stand in need of all the gold it can procure to carry on its own business.

In this way an efficient check is established against over issues; first, by the exchanges producing the immediate return to a bank of all paper that it issues, beyond the fair demand of its own transactions with the public; and, secondly, by the expense which a bank must sustain in providing gold for the payment of the balances that would be against it on the exchanges, if it persisted in issuing too much paper.

3. The obligation of an immediate and unconditional payment of bank notes, renders them, as Adam Smith says, in every respect equal in value to gold and silver money, since gold and silver money can at any time be had for them. Whatever is bought or sold for such notes, must necessarily be bought or sold as cheap as it could have been for gold or silver.

This convertibility of paper into gold, when the trade of banking is free, is rendered efficient by the necessity already explained, under which the banks are placed, of exchanging each other's notes, either daily or at certain short intervals, and of paying the balances in gold; and in this way there is continually going on among the banks a practical and effectual conversion of paper into gold. It is this continual demand for coin, by the banks on one another, that gives the principle of convertibility full effect, and no such thing as an excess of paper, or as a depreciation of its value, can take place for want of a sufficiently early and active demand for gold. If in England the power of converting paper into gold has not prevented an excess of paper, because the demand does not occur until long after the excess has taken place, this is to be attributed to the system of English banking.

4. A system of banking carried on by a number of rival banks, acting under the control of regular exchanges of bank notes, precludes the possibility of those sudden extensions, and contractions of the currency, which the Bank of England can, at its pleasure, bring about. For if one or more banks attempt greatly to enlarge the quantity of paper, the surplus beyond what the circulation required would be immediately returned, through the exchanges; and if one or more

banks were to attempt to contract the quantity of paper more than the circulation rendered expedient, the other banks would increase their issues, and keep the circulation at a proper level. If all the banks were to combine to increase the quantity of paper beyond what the circulation required, although this might for a time render the control of the exchanges inoperative, as the consequence must be a depreciation of the value of paper, every holder of a bank note would have an interest in demanding gold for it, and the banks would in this way suffer more in the end from their combination than they could gain by it.

5. The principle of private interest, when the trade of banking is free, provides a complete protection against the interference of weak banks. For if a bank force a larger quantity of its notes into circulation than its capital and fair dealings justify, as the circulation will admit of only a certain amount in the whole, this bank will diminish the quantity of paper in circulation of the other banks, and injure their interests: to this they will not submit, but they will combine together to collect the paper of the offending bank, in order to make a run upon it. So also if any new company were to be formed, without a sufficient capital, as its proceedings would certainly end with injuring the old banks, they are

led, in such a case, in defence of their own interests, to combine together, and at once to destroy such a bank.

6. If the consequence of a free system of banking is the establishing of solvent banks, and the exclusion of weak ones, all grounds of panic are removed; and the public will be taught by experience, that their best policy, in times of difficulty, will be to forbear from increasing the pressure on the banks.

But although a system of banking might be established, by leaving free the operation of the influence of the principles of convertibility, of profit, and of private interest, which would admit of paper money being extensively used, with perfect security from bank failures, the banks would still be able to make those large issues of paper when prices were high, and a spirit of speculation existed, which would encourage over-trading. But this is no reason against employing bank notes, because, under such circumstances, if the currency were wholly metallic, over-trading would go on, as it has always gone on, in Lancashire, with the help of bills of exchange, and the system of indorsing them from one party to another.

The improvident conduct of banks, in issuing paper too freely when prices are high, arises from the same cause as the miscalculations

of merchants upon the future state of prices, namely, negligence in inquiring into the causes of their being high, and too much confidence in their permanency. But as the late distress has taught the banks their past errors, it may be expected that they will adopt a different line of conduct when prices again become very high, and whenever a great spirit of speculation shows itself. It may also be expected, that the principle of private interest will assist very much in bringing about an improvement in the managing of the banking business, because every bank, which greatly increased its issues subsequently to the beginning of 1824, must have lost more in the end, by the embarrassments of trade, than it gained in the first instance by increasing the quantity of its paper in circulation.

In addition to the advantages already mentioned, that belong to paper money, it may be observed, that when the trade of banking is quite free, and small notes allowed to be issued, the profits upon it allow of the banks giving cash credits to a large amount, and paying a liberal rate of interest on deposits. The former assist, in a great degree, the industry of the country, and the latter afford to all classes the benefits of saving banks.

On the whole, sufficient has been said to show

that it is the interest of every commercial country to introduce a free system of banking, and the most extensive use of paper money, consistent with its convertibility into coin. This is the object which England, at this moment, ought to attempt to secure, in place of patching up the deformed system her laws have established, by new restrictions on paper, and endeavouring to secure a larger proportion of metallic money.

The objection to the general use of paper money, that it will greatly increase the crime of forgery, does not appear to be well founded. It was not to the quantity of paper in circulation of late years, or to the allowing of notes, under the value of five pounds, to be issued, that the numerous instances of forgery were to be attributed; but to the wretchedness of the engraving of the notes of the Bank of England, and the fact, that no improvement had been made in it for upwards of a hundred years. Whatever commodity may be adopted to serve as a circulating medium, it must be a hopeless task to guard completely against the effects of the issues of spurious money. If that commodity consists of the precious metals, it will be adulterated and debased. Six hundred and eight persons were convicted of forging and of passing forged coins in England and Wales, in the seven years

ending with 1796, being the seven years previous to the Bank Restriction Act, and when the currency was chiefly metallic.

The notes of the Bank of Ireland were very much forged previously to 1814; but the directors of the Bank of Ireland having then adopted Mr. Oldham's plan for engraving their notes, very few forgeries have since been attempted.

There are very few forged notes of the one pound notes of the Scotch banks in circulation; and infinitely less loss has been occasioned by those forgeries than by the issue of spurious coins *.

It is therefore clear, that the fear of the increase of the crime of forgery of bank notes is not so well founded as to justify the depriving the public of the many advantages of the free use of paper money, and to incur the great expense of a metallic currency.

* Mr. Joplin mentions, in his Tract on Corn and Currency, that "with a certain quantity of engraved, and other works upon their notes, Messrs. Perkins and Heath consider them so far at present inimitable, or beyond the reach of profitable forgery, that they have engaged to supply the provincial bank of Ireland, whose note was furnished by them, with a new issue, should there ever be a passable forgery upon it, the cost of which would amount to several thousand pounds."—P. 73.

SECTION VII.

On the Bank of England.

A VARIETY of circumstances point out the present as a proper time for taking into consideration the expediency of continuing to maintain a trading company, like the Bank of England, invested by the legislature with exclusive privileges, and possessed of a capital of such a large amount as to give it an uncontrolled dominion over the currency of the country.

It may possibly be true, that this Bank contributed, as it is said it did, in some degree to advance the prosperity of the country, when it was first established, and when commerce was in its infancy; but there is abundant reason now to doubt, whether, for many years, it has been productive of any advantage whatever.

The circumstances, which have totally altered its original character, and the nature of its connection with the public, are the great increase of trade, and the extent to which paper money has been introduced into the circulation. While trade was carried on upon a small scale, in com-

parison with what it is now; while the paper of the Bank of England did not exceed a few millions, as was the case prior to 1780, and while but few country banks existed, the Bank of England did not possess the power of inundating the country with its paper. But it is now an admitted fact, that the Bank Directors have the means in their hands, without being subject to any control whatever, of increasing or reducing the circulation in such a degree, as to produce the greatest embarrassments to trade. "Though," says Mr. Ricardo, "I am fully assured, that it is both against the interest and the wish of the Bank to exercise this power to the detriment of the public, yet when I contemplate the evil consequences which might ensue from a sudden and great reduction of the circulation, as well as from a great addition to it, I cannot but deprecate the facility with which the state has armed the Bank with so formidable a prerogative*." Mr. Tooke says, with great force and truth, "Next to the administration of the state, there is no administration of any office so immediately and extensively affecting the interests of the community, as that which is entrusted to the persons (the Bank Directors) who are invested with the privilege of issuing paper

* Principles, p. 431.

money; and who, by the manner in which they exercise that privilege, have it in their power to produce great changes in the property and condition of every individual in the kingdom. No man, or set of men, ought, in my opinion, to be entrusted with that privilege*." Mr. Mushet says, "The power which the Bank of England appears to possess over the funded property of the country, and, indeed, of all other property, is of such magnitude as to require, and to deserve, the greatest attention of the legislature. They have in their power, by an extension of their issues, of from one to two millions in the course of a few months, unknown from the public except from their effects, to raise the price of consols from twenty to thirty per cent.: and by withdrawing them again to cause as serious a fall†." The Bank of England, as it has been well described, in point of fact, in place of being what it was originally intended to be, merely a bank for commercial purposes, is become a great engine of state; receiving the revenue; paying the interest due to the public creditor; circulating exchequer bills; accommodating Government with immediate advances on the credit of distant funds; and assisting generally in all the great operations of finance. It

* On Currency, p. 124. † On Currency, p. 143.

not only influences, by the superior magnitude of its capital, the state of commercial transactions, but now that paper has so far supplanted coin, it possesses some of the functions of sovereignty, in addition to those which belong to its trading character; so that, while we call to mind, that it possesses the means of assisting commerce and financial affairs, it should not be forgotten, that in the same degree it has the power of controlling and disturbing them.

In regard to commerce, as the prosperity of it throughout all its branches, from that carried on by the retail dealer to that by the richest foreign merchant, depends on commercial credit, the power of the Bank is without any limit; for, if it think proper to force into circulation a very large quantity of its paper, when trade has a tendency to fall into a state of over-trading, it will contribute to encourage the wildest and most ruinous speculations: and if, on the other hand, it should suddenly contract its paper when very abundant, it will cause the best founded speculations to fail, and the ruin of all who have embarked in them. It is in this way that commercial credit, which of all things is of a most delicate nature, and most difficult to be kept from running into destructive extremes, exists wholly at the will and pleasure of the Bank Directors; and, consequently, that the success or failure of

every man in business is more or less dependent upon their movements. This is a state of things so entirely repugnant with every principle of trade, and with the great principle of security of property, that it ought not to be tolerated any longer. Commercial credit, so far as paper money is connected with it, instead of being thus left to the mercy of twenty-four Bank of England Directors, ought to be placed under the protection of a free system of banking; on the one hand the principle of profit would lead the banks to extend credit at all times as far as it ought to be carried; while, on the other, the principle of competition would prevent them from going too far, and forcing so much paper into circulation as would lower its value.

The influence of the Bank in affecting the value of funded property is observable in every newspaper. Not only the acts of the Bank, but every rumour about what the Bank is about to do, is watched with intense interest, and made the grounds of a rise or fall on the Stock Exchange. Sometimes it is the scale of discounts; sometimes the rates of interest charged on discounts; sometimes purchasing exchequer bills; sometimes accommodation in receiving instalments of loans; sometimes the dead weight; and at all times any act of the Bank, however trifling, that is sufficient to form the grounds for a change in

the value of every man's funded property; and this frequently in the interval that elapses between a person's giving his broker orders to buy or sell, and the executing of those orders.

In consequence of the Bank of England being possessed of so large a capital, and of its being the only bank in London that issues paper, it is able to exercise prodigious power over every individual who is extensively engaged in trade. The Directors, by refusing to discount the bill of any individual, may injure his character to such a degree as to deprive him of all credit, and ruin him in his business. By these means they exercise an arbitrary authority over the whole trade of London, that is wholly inconsistent with the liberty of trade, and with the security of property. If the supplying of the circulation of London with paper money were in the hands of several banks, the trade of London would be relieved from this odious tyranny; at the same time that it would be able to reckon with more certainty on receiving accommodation, and, indeed, much greater accommodation than the Bank of England at present affords.

From this short statement of only a part of the injury which the public sustains in consequence of such an institution as the Bank of England, it may be supposed, that it confers some great benefits, in the way of recompense,

that justify the policy of suffering it to exist; but it will appear, from a brief examination of its functions, that, in the way of serving the public, every thing it does could be as well done by having a number of rival banks.

The Bank at present issues about twenty millions of paper towards supplying the circulating medium: enough has been said already to prove, that in this branch of its business it has committed every sort of error, and frequently involved the country in great difficulties and distress; and therefore it is scarcely possible, if, in place of one national bank, there were several banks in London, and each of them possessing a large capital, that the public could suffer from the change; while there are good reasons for expecting, that these banks would supply the necessary quantity of paper money, without contributing to the recurrence of those great fluctuations in its amount which have been so often experienced. The profit of issuing paper, as before observed, would at all times secure a sufficiency of it; and the competition that would take place, as a matter of course, would make each bank jealous of its neighbour, and ready to check, by all the means in its power, the over-issuing of paper.

As to the assistance which the Bank affords to trade, by its discounts, this is very little under-

stood, and exceedingly exaggerated. In a posthumous work of Mr. Ricardo's, PLAN for a NATIONAL BANK, there is the following very valuable opinion on this subject: "I believe it (the benefit which commerce has derived from the accommodation afforded to trade by the Bank) to be quite insignificant, compared with what is afforded by the private funds of individuals. From papers laid before Parliament, in 1797, in which the Bank gave a number as unit, and a scale of its discounts for different years, it was calculated, by some ingenious individual, after comparing this scale with other documents, also laid before Parliament, that the amount of money advanced, in the way of discounts, to merchants, for a period of three years and a half previous to 1797, varied from 2,000,000*l.* to 3,700,000*l.* But it appears, by the evidence given before the Committee of the House of Commons, on the law of pledges, that the house of Richardson, Overend, and Co., discount bills annually to the amount of twenty millions, and sometimes more. No one can doubt, therefore, that if the Bank were to break up its establishment, and divide their funds among the individual proprietors, the business of accommodating merchants with discounts would go on as well as it does now*."

But if, instead of this system of dealers in

* Page 7.

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discounts supplying the trade of London with money, these dealers formed themselves into strong banks, and issued their own notes, there can be no doubt, after seeing the accommodation they now afford to trade, exposed as they are to be greatly controlled in their operations by the Bank of England, that trade would derive immense advantage from the change.

With regard to the finances of the country, a description of the several ways in which the Bank is concerned with them, and of the sums of money it derives from its being the bank of the state, will show, that every thing might be done with as great security and at a much less expense to the public, if the Government should divide its business among two, three, or more banks.

In the first place, in respect to the depositing of the produce of the taxes in the Bank, the only condition that it would be necessary to secure from any new bank would be, the lodgment of a sufficient sum in the hands of Government, to afford a complete security; but such security would readily be given by the new banks, particularly if they were allowed to hold the balance of the public money, as the Bank of England now does, without paying any interest upon it.

In the second place, in respect to the paying of the dividends on the public stocks, this is

a matter of common banking business, for the due performance of which the new banks would be able to give ample security.

One bank might be employed to receive the excise duties, and to pay the dividends on the three per cents.; another to receive the customs' duties, and to pay the dividends on the three and a half and four per cents., and so on. In regard to the expense now incurred by the public on this head, no one can doubt, who has read the Parliamentary papers and reports which describe the bargain that exists between the Bank and the Government, that an agreement might be made with a set of new banks, by which a very great saving might be effected in this item of the public expenditure.

In the third place, in regard to the advances which the Bank is in the habit of making to the Treasury from time to time, such a set of London banks as would be able to supply twenty millions of circulating paper, and give security for it, would unquestionably be possessed of sufficient means to make advances to as large an amount as the Bank of England has ever done.

Of one thing there can be no doubt, namely, that whenever the Government might have occasion to raise money in the way of a bank advance, it would be able to make much better terms, when a number of banks existed, than it

ever yet has made with the Bank of England *.

It is of so much importance to have the whole of the conduct of the Bank of England accurately explained to the public, that a detailed account will now be given of it on those occasions on which it has had the most influence upon commercial interests. The first case that will be

* According to the Second Report of the Committee of the House of Commons, on the Public Expenditure, in 1807, the advantages which the Government derive from the Bank are, first, the loan of their capital of 16,686,000*l.*, at three per cent.; secondly, the advance on the land and malt tax of 2,750,000*l.* at four per cent. The advantages which the Bank derive from its charter are, first, a large profit on the management of the public debt; secondly, the interest arising from between eleven and twelve millions of Government balances lying in their hands; thirdly, the profit from their paper circulation.

There was paid to the Bank of England, on the Capital of the Unredeemed Debt, as it stood on the 5th of April, 1824, as follows:—

	£.	s.	d.
At the sate of 340*l.* per million on 600,000,000*l.*	204,000	0	0
Ditto 300*l.* do. on 171,290,517*l.* 1*s.* 1¾*d.*	51,387	3	1
Ditto 340*l.* ditto on Life Annuities	2,451	3	5¾
Management on 4,000,000*l.* purchased of South Sea Company	1,898	3	5
Ditto on their original capital of 3,000,000*l.*	4,000	0	0
Total management paid to the Bank of England, in the year ending 5th Jan. 1825	263,736	9	9¾

Annual Finance Account, 1826, p. 134.

stated is the recent one of 1825; and after this, in succession, a short account will be given of the share the Bank has had in each of the commercial revulsions which occurred in the years 1818, 1815, and 1811. The conduct of the Bank of England during the suspension of cash payments will then be described, so that nothing may remain unknown in respect to the degree in which the Bank, on these several occasions, has been either useful or injurious to the state.

The conduct of the Bank of England between the begining of 1823 and the end of 1825, in increasing its issues so largely, has already been frequently mentioned; and those opinions which have been quoted of Mr. Tooke, Mr. Mushet, Mr. M'Culloch, Mr. Drummond, and Mr. Baring, respecting it, cannot fail to impress, in the strongest manner, a full conviction, that the measures of the Bank were highly injurious to the public interests.

The only way of explaining the object of the Bank of England, in increasing the amount of its notes in circulation, in defiance of such strong indications, as have been mentioned, of an existing abundance of circulation, as an efflux of gold and a depression of the exchanges was stated in the House of Commons, by a member of great authority, namely, an anxiety on the part of the Directors to be able to continue to make a divi-

dend of eight per cent. They had committed a great fault in collecting a very large quantity of gold *: and they found that this had so great an effect in reducing their profits, as to render doubtful the practicability of maintaining the rate of dividend which had been established for some years. It became, therefore, an object with them to promote a demand for gold by a large issue of paper, in order to enable them to diminish their stock of treasure. This they accomplished by increasing the issues of their notes, and thus producing a quick return of them, and a demand for the payment of them in gold, wholly disregarding the consequences to the public of adding to the circulation just at a period when trade was in such a state, that a circumstance of this kind was sure to contribute to promote a ruinous system of speculation.

Upon a reference to the circumstances connected with the commercial distress of the year 1818 it will be found, that the Bank of England acted a conspicuous part in it. It has already been mentioned, that trade was very prosperous from the beginning of 1816 till the autumn of 1818; and that then a system of over-trading took place, which produced a glut and universal distress.

* Mushet on Currency, p. 153; Tooke on Currency, p. 72.

In the first six months of 1817, although "the exchanges manifested a tendency downwards, and the price of gold, upwards*," the Bank increased the amount of its notes in circulation by 700,000*l.* "If," says Mr. Tooke, referring to this issue, "the Bank Directors had not unfortunately, upon system, disregarded, in the regulation of their issues, the indication by which their predecessors, previous to 1797, professed to be guided, they would have been warned to contract instead of enlarging their issues†." But the Bank Directors were not satisfied with making this error of issuing 700,000*l.*, for in the last six months of 1817 they still further increased their issues to the amount of 1,870,268*l.*

The average amount of Bank of England notes in circulation, including bank post-bills, was from

	£.
July to December, 1816.....	26,681,398
January to June, 1817.....	27,339,768
July to December, 1817.....	29,210,035‡

This increased issue produced a corresponding extension of country bank and private paper, and encouraged merchants and manufacturers to embark in the most extravagant speculations:

* Tooke on Prices, p. 110.

† Ibid.

‡ Report of the Lords' Committee, 1819, p. 323.

the result was precisely the same as that which has been described to have taken place in 1825. At the end of 1818 it was found out, that every market in the world was overstocked; prices fell suddenly, so as not to repay the cost of production, and not only England, but all other commercial countries, were involved in the greatest embarrassment.

The case of commercial distress in 1815 also exhibits the Bank of England as greatly contributing to it. In 1811 prices were very low, and trade greatly depressed. From the beginning of 1812 to the summer of 1814, trade had revived and become very prosperous. In 1814, a system of over-trading became general, and in 1815 and 1816 a state of universal distress took place.

	£.
In 1812 the average of Bank of England notes in circulation was.....	23,237,000
In 1813.....	24,023,000
In 1814.....	26,901,003*

This increase of Bank of England paper was accompanied with an increase of country bank paper, from 19,944,000*l.* the amount in 1812, to 22,709,000*l.* the amount in 1814†.

Here, then, again the Bank of England appears to have contributed to encourage over-

* Report of the Lords' Committee, 1819, p. 13.

† Sedwick's Tables, Mushet, p. 205.

trading, by greatly increasing the issues of its paper.

The commercial distress of 1811 is another case, in which the Bank encouraged over-trading by an imprudent extension of its paper. From 1808 to the autumn of 1810, trade was in a very prosperous state; but at the latter period over-trading became general, and a glut and a general distress were the result. In August 1808, the amount of Bank of England notes in circulation was 17,365,466*l.* But in August 1810, it was increased to 24,446,175*l.**

These facts relating to trade and currency, from the year 1807, are taken from writings of the highest authority, and, therefore, there is every reason for trusting to their accuracy. But, being well founded, what a case of misconduct is established against the Bank of England! In each of these four instances of excessive over-trading, an opportunity was afforded to the Bank Directors, on the one side, of doing a vast deal of injury to the public interests, by extending their issues, and thus encouraging over-trading; and, on the other side, of doing a great deal of good by diminishing their issues and checking it. But when it appears, that they uniformly took the wrong course, who can say a word in defence of the manner in which they have ad-

* Report of the Lords' Committee, 1819, p. 281

ministered their functions? Who can hesitate to acknowledge, that they have exercised a most pernicious influence over trade; and to allow, that many of the millions, which have been lost by bad speculations in the last twenty years, have been lost in a great measure by their mismanagement of the currency?

Another heavy charge remains to be brought against the Bank of England, namely, that of having so increased the issues of its paper, between the period of the suspension of cash payments in 1797, and the resumption of them in 1821, as to have greatly depreciated the value of the currency for almost the whole of that long period. The fact that this depreciation did take place, and was the consequence of the excessive quantity of paper, however keenly disputed in 1811, and for a long time after, may now be considered as universally acknowledged.

During the first three years after the restriction of cash payments, while the Bank Directors kept the amount of their paper within moderate limits, there was no depreciation of it, but, on the contrary, it was of higher value than gold. This is proved by the rate of exchange with Hamburgh having been, during these years, from three to five per cent. above par. This state of things, however, changed immediately after the issues of Bank of England paper were considerably increased in 1800. The exchange with Hamburgh

fell, in 1801, to 29. 8*, and the market price of gold rose to four pounds five shillings per ounce.

From this time the Bank Directors continued to increase their issues more and more; and the rate of depreciation increased so much, that in 1814 one hundred pounds in bank notes was worth only *74l. 17s. 6d.* in gold. The following table shows the value of one hundred pounds in bank paper, according to the market price of gold, from 1799 to 1822†.

YEARS.	Average Market Price of Gold per ounce.			Value of £100 in Bank of England Paper.		
	£	s.	d.	£	s.	d.
1800	3	17	10½	100	0	0
1801	4	5	0	91	12	4
1802	4	4	0	92	14	2
1803	4	0	0	97	6	10
1804	4	0	0	97	6	10
1805	4	0	0	97	6	10
1806	4	0	0	97	6	10
1807	4	0	0	97	6	10
1808	4	0	0	97	6	10
1809	4	0	0	97	6	10
1810	4	10	0	86	10	0
1811	4	4	6	92	3	2
1812	4	15	6	79	5	3
1813	5	1	0	77	2	0
1814	5	4	0	74	17	6
1815	4	13	6	83	5	9
1816	4	13	6	83	5	9
1817	4	0	0	97	6	10
1818	4	0	0	97	6	10
1819	4	1	6	97	11	0
1820	3	19	11	97	8	6
1821	3	17	10½	100	0	0

* Lords' Report, 1819, p. 339.

† Tooke on Prices, Appendix to Part i, No. i.

The Bank Directors, on finding that they possessed the power of issuing paper with great profit, in consequence of the suspension of cash payments, abandoned the old rule of their predecessors, of contracting the issues of it whenever the foreign exchanges indicated a tendency to fall; and, in place of it, invented a rule, much more calculated to secure their object, of keeping in circulation a very increased quantity of paper, and securing a large dividend; namely, that of discounting all bills, which were in their opinion "legitimate mercantile paper*".

If the Directors had steadily acted upon the old rule during the period between 1799 and 1821, there can be no doubt, that the paper currency, during this period, might have been maintained of equal value with gold; for no principle is more capable of being conclusively demonstrated, than that the value of paper money, like that of every thing else, is determined according to the quantity of it in proportion to the demand for it.

Several other instances of the misconduct of the Directors might be referred to, for the purpose of showing how much injury they have done to the public interests; but, one only of them will now be mentioned; namely, their pro-

* Evidence of Mr. Whitmore and Mr. Pearce.—Report of Bullion Committee, p. 21.

ceedings after the passing of the Act in 1816, for further continuing the suspension of cash payments.

In the years preceding 1816, the Directors, in expectation that cash payments would be restored in 1817, according to the provision of the existing law, had reduced the amount of their notes in circulation, from 28,039,690*l.*, as it stood in April 1815, to 24,441,430*l.* on the 6th of January, 1816 *: in consequence of this great reduction of paper having raised the foreign exchanges, and brought the price of bullion down nearly to the mint price, a more favourable state of things could not exist for accomplishing the restoration of cash payments, and for making the change to the ancient standard currency, without any derangement in the prices of commodities, or in the then existing value of property.

The Ministers, however, of 1816, thought otherwise, and obtained the passing of a new Act for postponing the resumption of cash payments till 1818.

In the preamble of this Act the reason given for the postponement is: "in order to afford time to the Directors of the Bank to make such preparations, as to their discretion and expe-

* Lords' Report, 1819, p. 324.

rience may appear most expedient, for enabling them to resume payments in cash."

But the Directors, in place of making any such preparations, increased their issues, and restored the former difficulties in the way of resuming cash payments. On the 6th of August, 1816, the amount of notes of the Bank of England in circulation was 25,887,140*l.** : on the 9th of July, 1816, the exchange with Hamburgh was 36,10†. But this very favourable state of things was changed into an unfavourable state, by the Bank Directors having increased their issues to such a degree, that on the 12th of July, 1817, they amounted to 30,686,720*l.*‡ The consequence of which, in respect to the foreign exchanges, was, that on the 18th of July, the exchange with Hamburgh fell to 34,6§.

Although the public suffered greatly by the course which the Directors adopted in the management of the currency, it appears that the affairs of the Bank enjoyed a degree of unexampled prosperity during the long period it was relieved from paying its notes in gold; a circumstance which contributes in some degree to explain the meaning of the rule, then acted upon for the first time, of regulating the issues of their notes according

* Lords' Report, 1819, p. 325. † Ib. p. 352.
‡ Ib. p. 326. § Ib. p. 353.

to the demand for discounts for "legitimate mercantile paper."

The following extract from the Supplement of the Encyclopædia Britannica gives an accurate description of the profits of the Bank, up to the year 1816, and is well deserving of the attention of those persons, who see nothing in the conduct of the Directors but unabated exertions for the public good:—

"From all these different causes, from the increased circulation of its notes, and from the vast accumulation of public business, the profits of the Bank appear to have been prodigiously augmented in the course of the late war; so that its average dividend, including the bonus from time to time added to it, will be found to amount, from the year 1797, to nearly ten per cent. *; and it is calculated, besides, on data which admit

* The usual dividend on bank stock was seven per cent. prior to 1797: in April 1807 it was raised to ten per cent. Between 1799 and 1807 a bonus was paid, in addition to the dividend of seven per cent., as follows:—

Bank stock.

In June 1799	a bonus on every	100*l.* of	10*l.* loyalty loan.
May 1801	ditto	ditto	5*l.* navy 5 per cents.
Nov. 1802	ditto	ditto	2½*l.* ditto.
Oct. 1804	ditto	ditto	5*l.* per cent. cash.
Oct. 1805	ditto	ditto	5*l.* ditto.
Oct. 1806	ditto	ditto	5*l.* ditto.

Inquiry, &c. by R. Mushet, Evidence, p. 54.

of no considerable error, that the sum of undivided profit must, in the mean time, have increased to the enormous amount of 13,000 000*l.**: out of this fund the Bank advanced to Government, for the year 1816, a loan of 6,000,000*l.*; and at a Court of Proprietors, held in May 1816, it was resolved to make an addition to the capital of the Bank of 2,910,600*l.*, the effect of which was to raise the capital of each proprietor of 100*l.* of stock, producing 10*l.* per annum, to 125*l.*, and to increase his income proportionally, namely, to 12*l.* 10*s.* per annum. The great profit realized by the Bank, since the suspension of its cash payments, has produced a corresponding rise in the value of its stock. Throughout the year 1797, the average price of Bank stock was about 125*l.* per cent.; since that period it has been gradually improving in value, and its market price now (1816) amounts to

* This view of the affairs of the Bank, since the year 1797, is founded on the statements contained in the work of Mr. Ricardo. He seems to have made his calculations on grounds sufficiently certain; and his capacity for diligent research leaves little room to question his accuracy. The amount of the surplus capital accumulated by the Bank, in 1797, which is the foundation of all the subsequent conclusions, is ascertained from the account of its affairs laid before Parliament, at the time of the suspension of cash payments in 1797.—See Ricardo's Proposals for a secure and economical Currency, Appendix, No. 5, p. 103.

about 262*l.* per cent. The original capital of the Bank has thus acquired, since the year 1797, when the Act passed releasing it from its obligation of paying in specie, an additional value, equal to nearly 16,000,000*l.*, which, added to the estimated increase in the sum of its undivided profit, amounting, according to Mr. Ricardo's calculation, to 9,599,359*l.*, makes a sum of 25,599.359*l.*, the actual improved value of the Bank capital during the last nineteen years*."

Notwithstanding the numerous instances which can be proved of the misconduct of the Bank, there still exists a backwardness to join in an attempt to get rid of it; a circumstance which plainly originates in the long cherished prejudices that prevail, in regard to some supposed advantages that the commerce and the finances of the country derive from its assistance. The long time the Bank has been established has a great effect in keeping up these prejudices; and the power the Bank possesses, of injuring every extensive trader in London, contributes to stifle complaint, and to lead to false acknowledgments of its utility. But a better acquaintance with its true character must soon deprive it of the high place it hitherto has held in the public imagination.

The great power which the Bank possesses

* Supplement to the Encyclopedia Britannica, vol. ii, p. 79.

over the currency makes it absolutely indispensable not to allow mere prejudices to protect it, in maintaining its situation as a privileged and over-rich banking company. Ministers and parliament ought to look much deeper into the question of the policy of any longer allowing it to exist, except on terms of perfect equality with other banking companies; and this they ought to do without delay, for as sure as such a state of trade shall again take place, as shall revive a strong temptation to over-trading, the Bank will again encourage, by its increased issues of paper, the country banks to increase theirs, and thus do all that lies in its power to bring the country into new difficulties.

Although the charter of the Bank does not expire till 1833, this circumstance ought not to deter Ministers from making every effort in their power to bring it to an immediate termination. The conduct of the Bank has been of such a nature as to place it entirely at the mercy of parliament; so much so, that parliament would be quite justifiable in withdrawing the charter forthwith, if the Bank should refuse to accept of a reasonable consideration for relinquishing it; for it may be laid down as an indisputable maxim of the constitution, that whenever parliament confers particular privileges, for the public good, parliament preserves the right, on

its part, to inquire into the exercise of these privileges; and if it finds, that instead of their being exercised so as to be conducive to the public good, they are made the means of doing a public injury, the right remains of revoking the trust, and of withdrawing from the offending party the privileges it had conferred upon it. The granting of exclusive privileges, Lord Coke says, cannot be justified, except on a case being made out of *urgens necessitas et evidens utilitas*. So must, therefore, necessity and utility exist to justify the continuation of exclusive privileges. The rule to be followed in such cases as that of the Bank of England was ably and accurately laid down in the House of Commons in the last session, in the debate upon the representation of Edinburgh. It was then said—"When a measure of general utility is at issue, I will not allow a private right to interfere; but when a partial measure affects a private right, I will defend the private right*."

If Ministers, in consequence of at length adopting more correct opinions respecting the Bank of England, would go seriously to work in endeavouring to bring the Directors into an arrangement for immediately surrendering their charter, and reducing their capital to such an

* Mr. Canning.

amount as would admit of a probability of other banks being established with equal capital, there is little reason to think that the Bank would decline to make such an arrangement, and prefer leaving their case to be dealt with by parliament on the abstract question of whether their conduct did or did not amount to a forfeiture of their charter.

If Ministers were to offer, as the basis of the arrangement, a full compensation for the loss the Bank would sustain, by now surrendering their exclusive privileges, and the continuing to the Bank of a large share of the public business; but were prepared, at the same time, with a plan to take all the public business from it, if it declined the offer; there can be little doubt that the attempt would be successful.

When it is taken into consideration how great an obstacle the Bank of England is to the establishing of a sound system of banking, and how much real injury it does to the public, from the manner in which it administers the currency, the public can well afford to give a large sum to the Bank, as a compensation for agreeing to such an arrangement, in respect to its charter, as the interests of the public require.

SECTION VIII.

On Joint Stock Companies.

The trade of banking is of such a nature, that it is scarcely possible for any but a very numerous body of partners to furnish a capital sufficiently large for carrying it on advantageously to the public. A single individual, or a few individuals, cannot be, but very rarely, possessed of that amount of capital which alone can render this trade a safe one; for this reason, in order to establish in a country a sound system of banking, it is indispensably necessary, that care should be taken not to impose any legislative restrictions in the way of large bodies of partners associating together, to form joint stock banking companies.

The success of the Scotch banks proves, that this mode of carrying on the trade is very well suited to it; and if the restrictions in the way of establishing joint stock companies in London were removed, the profit that is to be made by banking, the spirit of rivalship, and the advantage of getting rid of the arbitrary conduct of the Bank of England, would unquestionably

lead to the forming of several companies of this kind.

The establishing of such companies in London would produce a total change of the banking system, not only in London, but in the interior of the country.

As to London, it may safely be said, that the establishing of such new companies cannot render the administering of the currency worse than it has been under the Directors of the Bank of England. These companies will supply two essential accompaniments of a sound system, which have never yet existed, namely, a sufficient degree of skilfulness, and an active competition.

Although, perhaps, the predominant failing of the Bank of England has been that of sacrificing every other consideration for the sake of securing a large profit on their trade, it is, at the same time, true, that a number of their errors are to be attributed to their ignorance of the principles of currency and banking. But if the business of supplying the London circulation were to be placed in the hands of several sets of Directors of opulent companies, chosen, as they would be, in all probability, for their known qualifications as men of scientific as well as of practical attainments, and constantly employed in guarding the interests of their constituents, the science of banking would be ex-

tensively cultivated; and by becoming the subject of constant discussion and examination among a number of well-informed persons, who now feel little interest in the study of it would soon be well understood.

The bringing of the principle of competition into full operation is the other great advantage that would arise from establishing joint stock companies in London. It is perhaps the want of competition, that has been the chief source of all the mischief that has arisen from the existing banking system; for, as the profit of a bank is in proportion to the amount of paper which it can keep in circulation, competition is essentially necessary, as the only means of checking over-issues. When competition is in full operation, and the business of banking is in the hands of several opulent companies, if one of them attempt to force into circulation more of its paper than there is a regular demand for, as every other bank will be a sufferer, all are interested in joining together in taking measures to collect the paper of the offending bank, and to return it suddenly and in large quantities to it. It is in this way that established banks are kept in check, and weak ones prevented from being able to maintain themselves.

The evidence that was taken before the select committee, which was appointed in the last session to inquire into the Scotch banks, shows, that

this is the practice of those banks, and that it has always been successful. It also shows how much, in all other respects, the principle of competition prevails, and contributes to that complete success with which paper money has been for the greater part of a century the only money in Scotland. The following is an extract from the evidence: —

Mr. Thomas Kinnear, a Director of the Royal Bank of Scotland.—"Do you consider that the banks act upon a principle of combination in Scotland, to extend and keep out their paper, or upon a principle of rivalship, in checking the issues of each other?—It is well known the banks do not act upon a principle of combination, and that they act on a principle of rivalship.

"At what period did the present system first take root and expand itself?—The system may be said to have taken root as soon as there was a competition between two banks: that took place in the year 1728. Between that time and the year 1750, or 1751, the competition went on between those two. The system may be said to have expanded, when about that time some provincial banks originated; soon after that the British Linen Company began to issue notes, and the competition became general*."

Mr. Robert Paul, Secretary of the Commercial Bank of Scotland.—"Is there a constant spirit of competition among the banks?—No doubt there is. I think there is just that degree of competition and rivalry on the one side, and that measure of friendship and good

* Evidence, p. 137.

understanding on the other, which, like the powers of opposite forces, keep the banks firm and steady*."

Mr. John Thompson.—" Do you consider that the existing banks carry on their business of issuing notes upon a principle of competition with each other?—I think they do.

" Would you say that they act upon the contrary principle; namely, of combination with each other?—I think that is impossible†.

" In 1778, the Royal Bank made a run upon the Bank of Scotland; and then there was, after that, a course of warfare between some Glasgow Banks and some Aberdeen Banks‡."

Many persons are of opinion, that, in order to establish Joint Stock Companies, it is expedient to protect the property of the shareholders from being liable for more than the amount of their subscription.

But experience fully proves, that no such protection is necessary, and that the profit to be made by the trade of banking is quite a sufficient inducement to embark in it with all its risks. Three only of the banking companies of Scotland have charters; and since the power has existed in Ireland of forming joint stock companies, the Provincial Bank and the Northern Bank have been established§.

* Evidence, p. 212. † Ib. p. 164. ‡ Ib. 167.

§ " On the first establishment of the Provincial Bank of Ireland, many of the Directors had doubts about the propriety

Though some cautious persons may be discouraged by the prospect of unlimited liability, which the law as it now stands exposes them to, the rule of the law ought to be rigidly adhered to, and in the case of the banking trade above all others.

At the very moment that the plan of allowing these companies to be formed is founded on the principle of obtaining adequate security for the value of bank paper, it seems to be very inconsistent to propose to relieve the subscribers to these companies from making their fortunes responsible. In place of holding out encouragement to parties to come forward to form new companies, the greatest care should be taken to avoid removing the natural obstructions that are in the way of forming them, because, the consequence of rendering those who embark in the trade free from risk beyond their subscriptions would be schemes for companies without end, many of them for no other purpose than filling the pockets of the projectors of them, in the shape of law agents, secretaries, clerks, and treasurers.

If the legislature does not interfere, but leaves

of forming it without a Charter, to limit the responsibility of the shareholders; but reflection, in the first instance, and subsequent experience, have proved to them how perfectly chimerical those fears were, and have removed every apprehension on the subject."—Joplin on Banks, p. 73.

every subscriber liable for his whole property, banking companies will be formed with caution, and by a description of persons who will attend to the proper management of them; and the business of banking will be in the hands of just that class of individuals in which it ought to be: but if the legislature does interfere, the regular and properly established banks will always be exposed to have their business damaged and their profits diminished, by the sudden starting up of new banks, with large subscribed capital, wholly uncalled for by the necessities of trade, or the existing circumstances of the currency. If the measure already proposed, of requiring all banks to give security, be adopted, this will put down so many of the present weak banks, that the rate of profit on banking for some time will be increased, and hold out a sufficient encouragement to make sure of the establishing of several more Joint Stock Companies.

Scotland may be again referred to as an illustration of the reasoning now made use of; for had it not been for the confidence which proceeds from the known fact of all the fortunes of the persons who are in banks being liable to the debts of the banks, panics must have happened, runs for gold would have followed, and the failure of many banks must have taken place. There can be no doubt, that "if the partners of a bank are all bound to the whole extent of their

fortunes, for the debts of the copartnery, security would be afforded to the public against ultimate loss, even if the bank should, from any sudden pressure, be obliged to suspend its payments; at the same time that the knowledge of this ultimate stability, by conciliating the public confidence, has a powerful tendency to prevent runs*." The following question was asked of Mr. Thomas Kinnear, by the Committee on Scotch Banking: "Do you think it would injure the system of banking in Scotland, if charters were granted to the banks generally, by which the property of the partners was rendered free from liability to loss beyond what they held in the concern?" His answer was: "Yes; I think if that were done generally, it would be very injurious. If such a charter had been in existence, in the case of the Mid Lothian Bank and the Fife Bank, it would have had the effect of injuring the public very materially†." The report of the same Committee very accurately states, that the general provisions of the law of Scotland are calculated to promote the solidity of banking establishments, by affording to the creditor great facilities for ascertaining the pecuniary circumstances of individual partners, and by making the private fortunes of those partners available for the discharge of the obli-

* Edinburgh Review, No. 89, p. 281.

† Evidence, p. 139.

gations of the bank in which they are connected*." In point of fact, the fortunes of all individuals belonging to a bank is the highest security that can be taken for diligence, fidelity, and honesty, in the management of a bank; and, therefore, it would be extremely unwise for the legislature to make it a part of a new system of banking to relieve partners from this liability.

* Report, page 4.

SECTION IX.

On the disadvantages attributed by Mr. Tooke to a Circulation in which Paper is in large proportion compared with the Metals.*

If the measures which have been proposed were adopted, nearly the whole currency would consist of paper money; and it would certainly be liable to be objected to by those persons who maintain, that such a currency is more exposed to fluctuations than a currency of which a large proportion consists of specie.

This opinion having been very strenuously maintained by a writer of such high authority as Mr. Tooke, in his recent work upon the state of the currency, it is necessary to examine, in some detail, the arguments with which he supports it.

Mr. Tooke says, "it would appear that a currency consisting of paper requires a much more violent degree of contraction to meet the occasional emergencies of sudden payments, than is

* See the title of the fifth section of Mr. Tooke's work on Currency.

necessary in a circulation containing a large proportion of coin *."

Mr. Tooke further states in substance, that these emergencies of sudden payments may be owing to a failure of the crops at home, and to the consequent necessity of an importation of corn, or to over-trading of any kind; in time of war, to a large expenditure abroad by Government for subsidies, or for the pay of troops; or in peace, to loans or other financial operations, such as the conversion of the French rentes, or extensive recoinages abroad; that, under these circumstances, extra payments might be to be made within six or twelve months, amounting to ten millions †; and that, in the case of a circulation consisting almost entirely of paper, before the contraction could be pushed to any thing like the extent requisite for this purpose, the notoriety of the drain upon the bank would create a run, from fears among the holders of paper for its eventual convertibility, and the suspension of cash payments would be inevitable ‡.

This reasoning rests upon the assumption, that these extra payments can be made in no other way than by carrying bank notes to the banks to be exchanged for gold, and by exporting the gold so obtained; but this is not necessarily the case, because gold may be pur-

* Page 113. † Page 104. ‡ Page 109.

chased to any amount from the bullion merchants. It is certainly true, that, in the event of an unusual demand for it, the value of it might be raised, and might thus make it more advantageous to obtain it from the banks; but the circumstances which would occasion such a rise in the value of gold would add, at the same time, to the profit attending the exportation of commodities, and thus produce, not a contraction of paper money by carrying it to the banks to be converted into gold, but a great increase of exportation of goods to foreign countries.

By tracing the operation in detail, by which such extra payments as Mr. Tooke has described may be accomplished, it can be made sufficiently clear, that such an exportation is the constant consequence of them.

The moment it is known that the amount of payments to foreign countries is likely to be much greater than usual, an opportunity arises for merchants to turn their capital to account in new channels of dealings: they will be able in many ways to make a profit by anticipating the arrival of the time for making the extra payments; they will have two modes of remitting funds abroad to meet them, one the sending of gold, the other the sending of other commodities. If they send gold, as there can only be a small difference between the value of it in Lon-

don and on the continent, they deal without the means of making much profit. Whereas, if they send other commodities, by making a proper selection of them, they have an opportunity of receiving a large profit on the transaction. If, for instance, a merchant sends one thousand sovereigns to Hamburgh, when they arrive there, they will be worth but little more than what they are worth in London; but if he buys sugar in London with these one thousand sovereigns, and sugar is in demand at Hamburgh, he may receive the average rate of trading profit, as much as eleven hundred sovereigns, or a bill, previously given for corn, for eleven hundred sovereigns payable in London. Merchants will, therefore, prefer sending goods, for the purpose of making extra payments, to sending gold; and thus it appears, that, in place of these emergencies for making extra-payments, mentioned by Mr. Tooke, being the cause of a drain of gold on the banks, and of a contraction of currency, they are the cause of an increased amount of commodities being manufactured and exported.

The truth is, that it is peculiarly the business of merchants to find out the means of remitting with the least expense; and if coffee, sugar, or any other commodity will bring more profit than bullion, bullion will not be exported. If

the balance of dealings and payments between two countries could by possibility be one hundred millions, there would not exist the necessity for an ounce of bullion to remit it. Mr. Ricardo says, "we should not export gold if we had any commodity which we could export more profitably." "If the sellers of corn to England to the amount, we will suppose, of a million, could import goods which cost a million in England, but would produce, when sold abroad, more than if the million had been sent in money, goods would be preferred." "If, which is a much stronger case, we agreed to pay a subsidy to a foreign power, money would not be exported whilst there were any goods which could more cheaply discharge the debt*."

What has of late happened in respect of the loans made by this country to South America, corroborates the foregoing reasoning, the greater part of them having been remitted in British manufactures. Mr. Gladstane says, in his evidence before the committee on Scotch banking, "I think, with regard to the exportations to the new states of South America, until within the last twelve months they were generally successful; the large loans which the governments of those countries obtained from the monied interests of

* On High Price of Bullion, p. 11, 12.

this, afforded great facilities *for the purpose of remittance* *." Mr. John Thompson, another witness, says, speaking of the great exportation of manufactures from Glasgow to South America: "At first there were very large returns, and for some time afterwards, while loans were making in Great Britain for the new governments †."

What took place in 1810 shows, that immense importations of corn may be made without the aid of the banks in supplying gold; for in that year, when corn of the value of 10,000,000*l.* was imported, bank paper was not convertible into gold. In 1796, when paper was convertible into gold, it appears that extra payments to a vast amount were effected, not by gold obtained by carrying notes to the banks, but by an increased exportation of goods. It is stated, in the Lords' Report of 1797, on the Bank restriction, that although in 1795 and 1796 a sum of 4,600,000*l.* had been remitted for a loan to Austria; and although corn had been imported in those years of the value of 5,462,156*l.*; and although several millions had been paid, on account of the war in the West Indies, on the continent of Europe, in the island of Corsica, and other distant parts of the world ‡,

* Evidence, p. 220. † Ibid., p. 147.

† In four years, to 1796, 33,516,775*l.*

"the demand for cash to be sent abroad, for the purposes before mentioned, was greatly compensated by a very large balance of commerce in favour of this kingdom; greater than ever was known in any preceding period." The report goes on to state: "It is particularly observable, that the exports to Germany alone, for the two last years, have amounted to more than 8,000,000*l.* annually; when in time of peace they did not actually amount to more than 1,900,000*l.**" But what is still more striking is the following statement, founded on the authority of Mr. Irving, "that the quantity of gold and silver bullion exported, on an average of the last three years (1794, 1795, 1796), being years of war, is not a third of what was annually exported on an average of the three preceding years of peace (1790, 1791, 1792†)."

These facts establish the accuracy of the opinion already stated, that the real consequences of extra payments, arising from importing corn, from loans and subsidies, and from a great expenditure for foreign war, are not, as Mr. Tooke assumes, a contraction of the currency and a great exportation of gold; but a proportionate extension in the demand for British manufactures for exportation.

* Lords' Report, 1797, p. 143. † Ibid., p. 145.

SECTION X.

The Banking System of England.

SUFFICIENT has been said already to explain the nature of the banking system of England; and, therefore, this section will be confined to little more than a recapitulation of the measures, which seem to be wanting to make sure of an effectual reformation of it.

Every one agrees in opinion in respect to the injury that has arisen from the conduct of the Directors of the Bank of England, in suddenly and extensively enlarging their issues at one time, and in as suddenly and extensively contracting them at another; and no one can doubt, who has paid attention to their proceedings, as described in these pages, of the mischievous effects, in many other ways, of the uncontrolled power, which they possess and exercise over the currency. The obvious remedy for these evils is to diminish this power, and to place it under the control of continual and efficient competition. The former would be effected by the Government paying the debt it owes to the

Bank; the latter by repealing the law, which prevents more than six persons from joining in a company in London for issuing bank notes.

Although the Bank Proprietors would be able, if they thought proper, to have as large a capital as they now have after the debt due by Government was paid, it is not likely that they would be able to make such a profit upon it, in competition with new banks, as would repay them for so employing it.

If once the legislature should decide upon introducing the principle of full competition into the banking business, the better course for the proprietors of the Bank to take would be to divide themselves into two, or three, or four banks, in every respect independent of each other. By doing so they might preserve to themselves the business they now have of supplying the London circulation, and of acting as the bank of the Government. The same persons and the same capital might possibly be allowed to keep the same business they now carry on without any new banks starting up, and with only this difference, that no one bank would be too powerful, and that the principle of competition would come into operation in protecting the interests of the public. For, although at first these banks might be disposed to act with a good understanding towards each other, and on

a principle of combination, there can be no doubt that a feeling of rivalship would soon grow up, and bring with it an active principle of competition. Should the proprietors of the Bank adopt such a plan, the debt due by Government might be divided amongst the banks, and remain in the hands of Government; and thus the change from a system of one national bank to one of rival banks might be brought about without inconvenience to any party.

In respect to the country circulation, until two objects are secured, it can never be on a safe footing. The first of these is the driving out of the business of banking of every bank, which at present exists without possessing capital fully adequate to meet all the claims to which it may become liable under any circumstances of difficulty and panic. The second, the preventing of the establishing hereafter of any new weak banks.

The opening of the trade of banking in London would go a great way to secure both these objects; because, if small notes were allowed to be issued, as they ought to be, the London banks would no doubt be led, for the sake of making profit on issuing them, to open numerous branch banks in the country, as the Edinburgh banks have done. Their large capitals would enable

them, in time, to supplant the existing weak banks: and they could have no difficulty, in future, in stopping at once any new weak bank, that might be opened in opposition to them.

But as the system existing in England has taken strong root, the business of supplying the interior of the country might continue for some time in the hands of the existing banks, and therefore, even if the English law respecting banking was made in every respect the same as the law of Scotland, more would be wanting to be done; a certainty of protection against the existing weak banks in England should be provided without delay, by making every bank give security for the full amount of its issues. It will be a great national benefit to place the notes of bankers, by this means, on such a footing as shall render the holders of them safe from insolvency, and establish the most perfect confidence, in the mind of the public, in paper money.

The convulsions in commercial credit, which have been experienced so repeatedly within the last forty years, and the public injury which has arisen from them, plead strongly for such a legislative interposition. "While" (as it has been forcibly said) "every adventurer, however unprincipled, is allowed to open a money shop, and to thrust out notes, not worth perhaps the

paper on which they are engraved, into circulation, so long may we lay our account with experiencing the recurrence of bank failures*."

The following extract, from the 86th number of the Edinburgh Review, explains the proper manner of carrying into effect this plan of making banks give security, and the good effects that will arise from it.

"It appears to us, that the security might most advantageously be made to consist of funded property; and that every banking company should be obliged to deposit in the hands of Government as much stock as should be equal to the whole, or, at least, to three-fourths of the entire stamps issued to them. By the adoption of such a plan as this, it is hardly conceivable that any considerable loss could ever be incurred by the failure of country banks. It is obvious, too, that this system would have many collateral advantages. By obliging the bankers to increase their securities, whenever they made any considerable addition to their issues, this plan would have the effect to throw very considerable obstacles in the way of that excessive issue of paper, that invariably takes place under the present system, when prices are on the advance; and would, consequently, pre-

* Edinburgh Review, vol. xliii, page 274.

vent its sudden and injurious contraction when prices begin to decline, or when the Bank of England begins to narrow her issues. It is obvious, too, that this system would exclude the possibility of any banking company, for the issue of small notes, being formed without its being possessed of considerable capital. Adventurers speculating on the funds of others, and sharpers, whose only object is to get themselves indebted to the public, would find, that banking was no longer a field on which they could advantageously enter. And while the public would be protected from loss, the business of banking would gain both in respectability and security; for it is next to impossible, that such a panic could ever be excited as would occasion any thing like a general or continued run on banks, who had given security for payment of their issues*."

It has been said, that this plan would be injurious, by locking up a portion of the capital of the banks; but this is plainly a mistake. It is to be remembered, that a bank, on every occasion when it issues notes in the regular course of business, receives a bill of exchange, or some other security in lieu of it, and therefore, that the *actual* capital on which a bank makes its

* Edinburgh Review, vol. xliii, page 274.

issues is the property which is deposited with it, either in the shape of bills of exchange, or of lodgments of money as mere deposits. The interest arising from the *original* capital of a bank forms no part of the regular profits of banking; and this capital should be considered, not as the *actual* security on which a bank issues its notes, but as a *collateral* security for them to the public. This capital is the pledge which the bank gives for the faithful discharge of the trust reposed in it; and without such a pledge, kept continually unimpaired, the public can have no security to indemnify it, in case the bank should issue notes for no permanent value received; as, for instance, for payment of private debts, or for articles of present consumption, or for carrying on some other trade.

When, therefore, a bank issues paper for value received in bills of exchange, &c., that value becomes the security on which the paper immediately rests. This value is continually coming in, in money, as the bills become due; the actual or paid-up capital, therefore, of the bank, is, properly speaking, only a subsidiary capital; and it cannot fetter, in consequence, the fair operations of a bank to require it to vest such a portion of it, by way of security, as shall be equal to the amount of the paper it issues. The capital so vested, it should be remembered,

would not be unproductive, as the bank would receive upon it the same interest that the public funds would yield.

Bankers of respectability should be amongst the first to approve of this plan of requiring security; because it would be impossible for weak banks to exist and to interfere with them, as they now do, not only by filling a large portion of the circulation with their paper, but by contributing to panics, and to producing runs upon the most solvent establishments.

Upon the whole, the measures which seem to be indispensably necessary for establishing a sound system of banking in England are, 1. The repealing of the regulation of the law, which imposes the restriction, by which more than six persons are prevented from joining in a banking company in London for issuing bank notes. 2. The reducing of the capital of the Bank of England, so that companies may be established, with the power of entering into competition with it. 3. The requiring of every bank to give security to the full amount of the notes which it issues. 4. The repealing of the law which prohibits the issuing of notes under the value of 5*l.* If these measures were adopted, then there would be a perfect currency; it would be cheap, secure, and not susceptible of sudden variations in its amount. All ground

for panics would be removed, and whenever periods of commercial distress should occur, in place of the banks failing by forties and fifties, they would be able to lend their assistance in carrying trade through its difficulties.

If, after all that has happened, his Majesty's Ministers and Parliament should determine to leave the banking system of England as it now is, without making any further effort to reform it, so sure as trade shall again become very prosperous, results will follow exactly similar to those under which the country has recently suffered. Let any one, who doubts this, only consider by what motives the Bank of England is necessarily governed. The Directors may be as honest and upright men as every one is ready to believe that they are; but they cannot avoid feeling, from their situation as the representatives of the proprietors of bank stock, that it is their first duty to protect their constituents from a loss of property, by doing all in their power to prevent any diminution in the established rate of dividend on bank stock. The proprietors of bank stock have no other object, when they purchase it, than to make the most of their money: and when they elect directors, they choose those persons whom they believe will best promote this object. Whenever, therefore, such a state of trade shall

* Report, p. 4.

again arrive, as that which existed in the beginning of 1824, is it consistent with common sense to suppose, that the Bank Directors would withstand the temptation of making a large profit by discounting extensively, and other means of increasing the issues of their paper? Would they throw away the opportunity of making good their dividend of eight per cent. on being told that the appearance of prosperity was delusive, and that sound principles required that a disposition to place confidence in it ought to be checked? No one can expect they would do any such thing. They would assuredly enlarge their issues, and thus do all that lay in their way to promote speculation and over-trading. And if they did, in what part of the banking system do the means exist of controlling them, and of protecting the public from their imprudence? Surely, to leave matters in such a state, and to suffer the country to be exposed to an evil of this magnitude, is quite inconsistent with the right course of conduct of any wise Government.

In regard to the country banks, if nothing be done to get rid of those, which are now in no small number issuing paper without possessing a sufficient capital, and to prevent weak banks from being opened, when a revived state of trade shall encourage speculation, the same results will take place as of late occurred in regard to forcing

paper into circulation and final bankruptcies. It is not possible for any one, who may be disposed to deny the accuracy of this statement, to show in what part of the banking system there is any means of protecting the public from this evil.

If it shall so happen, that the Bank of England shall remain as it now is, that joint stock companies shall not be allowed to be established in London, and that banks shall not be required to give security, some future writer may have to relate, that the low prices of 1826 produced a diminished supply of goods in proportion to the demand, and restored prices. That a series of favourable circumstances in 1827 and 1828 established very high prices, and that a general and extravagant spirit of speculation and over-trading was the consequence. He will then have to state, that in place of the Bank of England and the country banks checking that spirit, they greatly fomented, fostered, and encouraged it; that after speculation and over-trading had been thus extended to their utmost limits, the Bank of England suddenly contracted its paper to a great amount, that the country banks stopped payment in all directions, and that the whole nation was again involved in a general state of commercial distress and ruin.

SECTION XI.

The Scotch System of Banking.

The following are the leading facts belonging to the system of banking in Scotland. No gold coin has been in the circulation for the last fifty years. The banks have constantly used every means in their power to keep the largest possible quantity of paper in the circulation. There have been no panics, as in England. The whole loss sustained by the public by bank failures from the first introduction of paper is thirty-six thousand three hundred and forty-four pounds.

The effect of this system has been most beneficial to Scotland. Adam Smith says, that "the trade and industry of Scotland have increased very considerably, and that the banks have contributed a good deal to this increase, cannot be doubted*.

Sir James Stuart observes, in his Principles of Political Economy, that it is "to the banks of Scotland the improvement of that country is entirely owing;" and "that all commercial coun-

* Vol. i, p. 443.

tries, by imitating them, will reap advantages of which they are at present deprived *."

The late Sir William Pulteney, than whom there was no one more capable of forming an accurate opinion on the subject, said, in his speech in 1797, on the Bank Restriction Bill, that the remarkable progress which Scotland had made in her commerce, manufactures, agriculture, and fisheries, was to be attributed to her banking system.

The following is an extract from the evidence, given before the committee on Scotch banking, of the last session, by Mr. Kirkman Finlay:—

Question. "Do you think that the facilities afforded by the banks have conduced mainly to the prosperity of Scotland?—*Answer.* I think that is one of the ingredients, and perhaps I should say the principal ingredient of the prosperity of the country †."

The case of Scotch banking is perhaps the most perfect and satisfactory illustration of the principles of a science that has ever existed. It leaves nothing to be desired in order to establish, beyond the possibility of dispute, the conclusion, that, if bankers are restrained from issuing notes for less than twenty shillings, and are sub-

* Vol. ii, p. 358.

† House of Commons' Report, 1826, p. 30. See Mr. Joplin's pamphlet on Scotch Banking, fifth edition.

jected to the obligation of an immediate and unconditional payment of their notes, as soon as presented, the trade of banking may, with safety to the public, be rendered in all other respects free.

The following extracts, which will now be given in this section from the Report on Scotch banking, will explain the manner in which this principle of free trade has operated:

"The first notice of banking in Scotland, which occurs in the Statute Book, is an Act of King William the Third, passed in the year 1695, under which the Bank of Scotland was established. By this act an exclusive privilege of banking was conferred upon that bank; it being provided, 'that for the period of twenty-one years, from the 17th July 1695, it should not be lawful for any other persons to set up a distinct company of bank within the kingdom of Scotland, besides those persons in whose favour this act is granted.' No renewal of the exclusive privilege took place after the expiration of the twenty-one years.

"The Bank of Scotland first issued notes of twenty shillings in the year 1704; but the amount of notes in circulation previously to the Union was very limited.

"The Bank of Scotland continued the only bank from the date of its establishment in 1695 to the year 1727.

"In that year a charter of incorporation was granted to certain individuals named therein, for carrying on the business of banking, under the name of the Royal Bank; and subsequent charters were granted to this establish-

ment, enlarging its capital, which now amounts to one million and a half.

"An act passed in the year 1765 is the first and most important act of the legislature, which regulates the issue of promissory notes in Scotland.

"It appears from its preamble, that a practice had prevailed in Scotland of issuing notes which circulated as specie, and which were made payable to the bearer on demand, or payable, at the option of the issuer, at the end of six months, with a sum equal to the legal interest from the demand to that time.

"The act of 1765 prohibits the issue of notes, in which such an option as that before-mentioned is reserved to the issuer. It requires that all notes of the nature of a bank-note, and circulating like specie, should be paid on demand; and prohibits the issue of any promissory note of a sum less than twenty shillings*."

According to the evidence of Mr. Kinnear, a Director of the Bank of Scotland, the existing system did not take root till the monopoly of the Bank of Scotland was put an end to, and the Royal Bank established †. The Bank of Scotland was supposed to have favoured the Jacobites in 1715, and this induced the Government to promote the establishing of the Royal Bank‡.

* Report, Committee, House of Commons, 1826, p. 3.

† Evidence, p. 137.

‡ Speech of Sir William Pulteney, Hansard's Parliamentary History, 1797, vol. xxxiii, p. 378.

The following account of the banks at present in Scotland is taken from the Report:

"There are at present thirty-two banks in Scotland, three of which are incorporated by act of parliament, or by royal charter, *viz.*—The Bank of Scotland, the Royal Bank of Scotland, and the bank called the British Linen Company.

"The National Bank of Scotland has 1,238 partners.

"The Commercial Bank of Scotland has 521.

"The Aberdeen Town and County Bank has 446.

"Of the remaining banks there are three in which the number of partners exceeds 100; six in which the number is between 20 and 100; and seventeen in which the number falls short of 20.

"The greater part of the Scotch banks have branches in connection with the principal establishment, each branch managed by an agent acting under the immediate directions of his employers, and giving security to them for his conduct.

"The Bank of Scotland had, at the date of the last return received by your committee, sixteen branches, established at various periods between the years 1774 and the present.

"The British Linen Company had twenty-seven branches.

"The Commercial Banking Company in Edinburgh, thirty-one.

"The total number of branches established in various parts of Scotland, from the Southern Border to Thurso,

the most northerly point at which a branch bank exists, is one hundred and thirty-three *."

The evidence which was taken before the Committee of the House of Commons, on Irish Exchanges, in 1804, and before the Committee of the last Session, shows, that the over-issuing of paper, and the depreciation of its value in Scotland, are prevented by the practice, that all the banks adopt, of exchanging each other's notes twice a week, and paying the balances of the exchanges with bills, at ten days' sight, on London.

The origin of this practice of the banks drawing bills on London at a fixed date, and at par, is described by Mr. Mansfield, in the evidence he gave in 1804 to the Committee on Irish Exchanges. Mr. Mansfield states, that for a considerable period, previous to 1770, paper was in circulation to a greater extent than the nature of the trade of the country required, in consequence of the imprudent credits that had been given by the banks, and by their agents: that this excess of paper was the cause of an exchange of five to six per cent. against Scotland: that the banks at that time gave bills on London according to what they understood to be the existing rate of exchange: that, with a view to bring the exchange to par, the two chartered banks collected as

* Report, House of Commons, &c. p. 5.

much funds of their own as they could, to bring to London, which were lodged partly in the Bank of England, and partly with their own bankers. That these two banks then began to reduce the rate of exchange gradually, by drawing at one-half per cent. and one per cent. less on London than the market rate, and so going on until they reduced the exchange to a fixed charge only for interest and commission: that in consequence of an understanding between the two chartered banks, to support each other in acting upon this plan, the other banks were obliged to follow, in making this change in the system of drawing. Mr. Mansfield further states, what is of extreme importance, and what in fact alone enabled the two chartered banks to succeed in their scheme, that the chartered banks, at the time they adopted it, considerably curtailed the issues of their notes.

The plan, Mr. Mansfield says, was so successful as to bring down the exchanges to par in the course of about two or three years, in which state, he adds, "it has remained ever since*." A bill at forty days' date was at that time considered a bill at par, this being a rate of drawing, which allowed one-half per cent. for commission. The rate is now at twenty days in ordinary transac-

* Report, House of Commons, Committee on Irish Exchanges, 1804, pp. 33, 53, 55.

tions, and at ten days between one bank and another.

This practice of drawing on London, by the banks, for the purpose of paying to each other twice a week the balances of the exchanges of their notes, has kept the value of bank paper in Scotland from ever becoming of less value than the current money of London. While that consisted wholly of paper, the Scotch paper fell in value with it: and now that it consists of paper convertible into gold, the Scotch paper is of equal value with gold, because every banker can obtain gold for the bills he receives in exchanging the notes of another banker, if he chooses to require it. It is in this way that the paper money of Scotland maintains the value of gold, although no gold exists in the circulation.

That the necessary result of the practice of the banks giving bills on London at ten days' sight, in payment to each other of their balances, is to keep the quantity of Scotch paper within due bounds, a moment's consideration is sufficient to make evident. Because, if the banks in Scotland were to issue more paper than the circulation required, a depreciation of its value would be the inevitable consequence; this would render it of less value than the current money of London, and it would be immediately carried to the banks for bills on

London, in order to secure the obvious profit that would attend the transaction: the consequence of this would be, that the banks would sustain a loss in maintaining funds in London to meet the continual drain that would take place of them by drawing at par, while the value of the Scotch currency was less than the value of the London currency.

As this practice of the banks, of drawing at par on London, originated in an arrangement made between two of them, it may be supposed, that it might easily be set aside, and the existing Scotch system of banking broken up by banks being established, who would not conform to it. But as this practice has completely succeeded, and as it relieves the banks from the necessity of holding large dead stocks of gold, it is so decidedly the interest of the existing banks to maintain it, that they would not fail to exercise the power they possess, by combining together, of driving out of the trade of banking, any bank that would not conform to the rule. Besides, it is not probable that the public would ever act so absurdly, as to take the paper of any bank, that relieved itself from the control of the obligation to pay its notes with bills at par on London.

As the practice of the banks of drawing bills at ten days' date on London is the final regulator

of the value of paper in Scotland, their practice of exchanging notes with each other is the immediate regulator of the issues of them.

This latter is a practice not so much the result of arrangement among themselves, as of necessity; because, as it has been explained in the Section on Paper Money, as every bank, in the course of its business, receives the paper of other banks, and as it would lose the opportunity of issuing its own notes, if it re-issued those notes so received, it follows, that they must be sent in to the bank which has issued them, and thus produce a system of exchanges.

The following extracts from the evidence taken by the Committee of the House of Commons, in the last session, explain the nature and effects of this system of exchanges:—

Evidence of J. G. Craig, Esq., Writer to the Signet*.—"What is the ordinary check that subsists against over issues?—All the banks of Scotland have agents at Edinburgh, who exchange their notes twice a week, Monday and Friday; there is a sort of general calling in of the notes on those days, and the balances paid by short dated bills in London. I know that the state of those balances is looked at by the banks, with the utmost jealousy and attention; and I cannot doubt, that, if any thing in any degree wrong, were to

* The writers to the Signet are the chief money agents in Scotland.

appear in the course of those exchanges, the banks themselves would instantly correct it, and force a bank acting improperly to alter its mode of conduct.

"Do you mean, that, if the other banks discovered an attempt at an over-issuing of notes on the part of one of the banks, they would endeavour to correct that?—They certainly would, for their own safety, as well as for the public good.

"Do you think *that* a sufficient check against the possibility of over-issue by any particular bank?—I think no particular bank can over-issue.

"Do you think, that, if all the banks were to combine, they could by any means force more notes permanently into circulation than the transactions of the country required?—I think it quite impossible: the notes that were not required for the use of the country, would instantly be returned into the banks."—P. 269.

Mr. Alexander Blair, of the British Linen Company, says, "In consequence of the exchanges, any notes which have been issued over and above what the circulation of the country necessarily would absorb, are immediately returned on the bank so issuing them; and he is obliged to give his bill on London, which is paid with real funds there."—"I conceive it quite impossible, that any over-circulation can take place."—"The check which exists on the undue issue of notes is the knowledge the bank must have, that such a proceeding would operate to its own disadvantage, and against the check of the exchanges."—"I conceive it is impossible there should be an over-issue of our notes, under the system of exchanges which exists at present."—"If the notes issued by a bank are over and above the amount the

country could absorb in circulation, they would be necessarily paid in to one of the other banks, and they would bring them against the banker who issued them, and he would be obliged to pay them by a bill on London, which would be equivalent to his having paid gold to the person to whom he advanced the notes."—P. 48.

Mr. Kirkman Finlay says, "If a bank at Glasgow were to issue more notes than the circulation could absorb, than the wants of the country required, the consequence would be, a balance of notes against that particular bank, in the hands of all the other banks, and a draw upon that account in Edinburgh; the agent there would be obliged to pay whatever balance arose there, in a bill at ten days' date on London."—"It is disadvantageous to the banks to issue more than, in the opinion of those who manage, will really remain out, and are wanted for the circulation."

"As each bank is directly interested in issuing as much paper as it can, when there is a very active spirit of speculation, might there not be for a time a considerable over-issue of notes from the whole banks together?"—"I think it quite impossible there could be an over-issue of notes, because the universal practice at Glasgow is to pay into the bank, with which the individual transacts his business, the whole of the notes he has in his possession, or nearly the whole, every day. The consequence is, if all the banks were to attempt to issue a larger amount of notes than the demands of the country required, all these notes would find their way into some bank or other, and then would meet in a very few days, perhaps in a few hours, at the Exchange."—P. 59.

Mr. Robert Paul, Secretary to the Commercial Bank of Scotland. — "What do you think is the guard against an over-issue of notes by the Scotch banks? — I think the system of exchanges that is established in Scotland is the most complete check upon over-circulation in that country.

"If all the banks could be supposed to combine, so that they should all over-issue; would not that over-issue be in the same way corrected, by being returned into the coffers of each bank by the neighbouring banks, that held such over-issues? — Yes; but that is an extreme supposition.

"But under that extreme supposition, would not there still be a correction afforded to an over-issue? — Certainly." — P. 213.

Mr. Thomas Kinnear.—"Is not the active check on an over-issue, the established practice of drawing at par on London? —Virtually the active check, or I should say the actual check, which prevents, in the notes issued by the bankers in Scotland, any excess over the circulation fairly demanded by the country, is, that twice a week a banker must pay the notes presented to him at the exchanges, in the currency of London; and the cash credit system throws into the exchanges all the spare currency of the few last days preceding." — P. 130.

The foregoing evidence affords an explanation, which is in every respect completely satisfactory, of the control which is successfully operative in Scotland, in preventing too great emissions of paper: and the following evidence shows, that the existing system runs no risk

of being injured, or eventually broken down, by the opening of weaker banks.

Evidence of Mr. Roger Ayton, Manager of the Renfrewshire Banking Company. — "What security do you feel exists in Scotland against the establishing of a weaker description of banks, and thereby destroying the character of the present system, with regard to its solvency and security? — If weak banks were to be established, our exchanges are so powerful, and so frequent, they could not stand it: in every six weeks, and sometimes in a month, we return the whole amount of our notes in circulation.

"Would there be a disposition on the part of the existing banks to combine against such an attempt to introduce weaker banks? — If we found there was a weak bank we would not receive its notes. — P. 194.

The following extracts of the evidence, respecting panics and failures, establish beyond all question the accuracy of the opinion which has been so frequently stated, of the complete success of the Scotch system of banking.

Mr. Roger Ayton. — "Do the people of Scotland prefer bank notes to gold? — They do.

"Do you feel that the system of banking in Scotland is safe from those risks which occur in this country from panic? — I think it perfectly safe from panic; because every individual, that has money deposited in the bank, is made a partner in the profits of the bank, by receiving interest.

"In point of fact, has there ever been a run upon the banks throughout Scotland? — I never knew one." P. 194.

Mr. J. G. Craig. — "Are you acquainted with any failures which have taken place among the banks in Scotland? — There have been only two failures in the banks in Scotland that I ever heard of; the one was that of the Stirling Merchant Banking Company, and the other was the Falkirk Union Bank. The loss to the public, upon the two banks (the former having paid fourteen shillings and ninepence in the pound, the latter ten shillings), will be 36,344*l.*" — P. 270.

Mr. A. Blair. — "Do you think the system a secure one, in case of sudden panic? — I consider a sudden panic a most improbable thing in Scotland, from the great confidence that generally prevails in the establishments throughout that country." — P. 50.

Mr. K. Finlay says — "It is the knowledge men possess of the means of the Scotch banks, which creates that confidence, that puts aside all belief of the possibility of the existence of such a panic as has prevailed in this country." — P. 68.

Mr. John Thompson. "Did any dangerous run take place upon the banks in Scotland, in the year 1745? — I believe not.

"Has any run at any time taken place, arising from a panic in England? — I believe at one time there was a run in Scotland between some of the banks: it was one bank running down another bank, I believe. In 1728 the Royal Bank made a run on the Bank of Scotland; and then there was after that a course of warfare between some Glasgow banks and some Aberdeen

banks; but there has never been any thing like a panic among the people." — P. 167.

The foregoing evidence respecting exchanges, panics, and failures, serves to support the correctness of the reasoning contained in the Section on Paper Money, in favour of a free system of banking, and shows, that, if the trade is free, the principles of private interest and competition will, in their operation, provide complete protection for the public against the depreciation of paper money and insolvent banks.

What the practical benefits are which Scotland has derived from paper money is fully explained in the evidence that relates to cash credits, and the payment of interest on deposits.

Mr. A. Blair. — "What is the system with respect to cash credit? — If a person wishes to have a cash credit with our company, he proposes two securities; and upon those securities being named, and being satisfactory to the Directors, a credit is given: those credits generally run from 200*l.* to 500*l.*, but they sometimes go as far as 1000*l.*, and in some cases beyond that; and sometimes as low as 50*l.*—P. 41.

"Have you any reference to the manner in which the money is to be employed? — We have reference to the manner in which it is to be employed, so far as regards the useful circulation of our notes. If we found a person, whom we considered a speculator or adventurer, was applying for a cash credit, we should not be willing to give him accommodation."—P. 49.

Mr. T. Kinnear. — "The explanation of the cash credit system is this: — the bank, which first opened a cash credit, opened it with an individual shopkeeper; he received for his goods in the currency of the country. Previous to that system he used to put his currency into his drawer — ten or twenty pounds, whatever it was; but after the banker explained to him what he wished him to do, when the shopkeeper received the currency of the country, instead of putting it into his till, he looked to the banker's shop as his till; he sent to the banker, and took from it what he required, the banker giving him his own notes." P. 116. — "If a tradesman were to deceive a banker, by pretending that he wanted a cash account, while, in fact, he only wished the loan of a sum of money, without transactions, the consequence must necessarily be, that he would very soon draw out the whole amount, and he would not repay it at all; it would remain for weeks or months as a dead loan: the banker has only to look at his own progressive ledger to see that this is the case, and he immediately says, This is not a cash account, you must pay up."— P. 117.

"Is there any inquiry made by the banker for what purpose the cash credit is to be used, before it is granted? — Yes; and those accounts are pretty much conducted on a point of honour. There are many things a man might legally do, that if he did, we should not deal with him; and therefore it is natural to us to inquire minutely, not only into his general character, but into the manner of his trade.

"Have the banks had many bad debts in consequence of cash credits? — I literally hardly ever heard of a bad

debt by a cash account. The bank of Scotland, I am sure, has lost hardly any thing in an amount of receipts and payments of hundreds of millions: they may have lost a few hundred pounds in a century.

"Is it customary for the friends of a young man, establishing himself in business, to come forward to offer themselves as securities for him? — Yes.

"Have you known of instances of those persons interfering, if the individual was not employing the credit to the legitimate purpose of his trade? — I have known of instances: and I know that it is common for one of those securities, seeing symptoms of what he thought wildness or imprudence in the party, to go to him, and tell him he would withdraw his name from his cash account bond, if that course of conduct was continued. This affords a great moral check on the conduct of those persons."—P. 125.

Mr. Hugh Watt says — Cash credits are granted to small farmers, who require assistance in stocking their farms, or who carry on a small cattle trade. They are granted to shopkeepers principally commencing business, such as drapers or haberdashers, or to tradesmen generally.—P. 189.

Mr. Robert Paul.—"What are the facilities that exist in obtaining a cash credit, compared with those of obtaining an ordinary loan? — When a person applies for a cash account, which is not an immediate advance of money on the part of the banks, but a conferring of the power or principle of drawing upon the bank to the extent specified, the person proposes two or more securities; a bond is made out, and he draws as occasion requires: in this way he has never more from the bank

than is absolutely necessary for the purposes of his business. The account is never recalled, unless it has ceased to be beneficial to the banker, by having been but little operated upon, and they not having promoted the circulation of the banker's notes. Whenever it becomes a dead advance, the banker calls it up. In the case of a person obtaining a loan, he would probably, in the first place, have to pay the interest down at once: he would have to pay it on the whole sum, whether he should require it ultimately or not, and it would be liable to be recalled by the lender at his pleasure."

"What is the expense of a bond for a cash account? —It depends upon the sum. Upon a cash account for 500*l*., the cost originally of the stamp is 4*l*., and there is a charge of half-a-guinea per cent. for writing the bond." —P. 205.

"How often, in the course of a year, does a bank think a cash account, to be profitable to them, should be turned over? — I would say, that no cash account is at all well operated upon, unless, at the close of it in a year, the amount of the transactions on each side is, at the very least, five times the amount of the grant." —"If the operations upon the account become unfrequent, we first give the holder a hint; and when it becomes altogether stagnant, and continues so for any length of time, we intimate to him, that at a fixed period he must pay it up, unless he can begin again to render it operative and useful."

"How much do you think the amount of capital, tha is thus rendered available to the productive industry of the country, by means of cash accounts, may be estimated at? — If we suppose the average of the cash

accounts to be 500*l.*, and that there are 12,000 of them, that makes six millions.

' Of that six millions, how much do you think is actually drawn out, at any one time, upon the average?—Upon the average two-thirds of it, four millions." P. 211.

" *Mr. J. G. Craig.*—" Are there many legal proceedings on the cash credits?—No; I believe it is rarely known that the banks have lost on cash credits." —P. 268.

Mr. J. Hadden says—" I have known many instances of young men, who were starting in the world from low situations, of servants, who have conducted themselves well during the time they were apprentices, or farm servants even, who were able to procure an account from the bank, by means of some friends or acquaintances becoming their securities, that in the course of their business have raised themselves to situations, by becoming farmers of considerable extent, and manufacturers, in a way highly creditable to themselves, and beneficial to the country."—P. 272.

The following evidence relates to the practice of the Scotch Banks of paying interest on deposits.

Mr. T. Kinnear.—" All the banks of Scotland have considerable deposits?—I should think so.

" Can you form any notion from your experience, and from the communications you have had with other bankers, of the amount of those deposits?—I think I may state the aggregate amount of the deposits, without fear of being far wrong, at the present time as exceeding ten millions, and not exceeding twenty-five millions; I should

say myself from twenty to twenty-one millions. They all bear interest (four per cent.) at the present time.

"Do you know whether it is the practice for persons, who have small capitals in Scotland, to invest them in the public securities in London, or to deposit them with the banks in Scotland? — I believe almost universally to deposit them with a Scotch banker.

"How low do you take deposits? — Generally the course of our bank, and I believe of every other, is to take deposits as low as 10*l.*; but I believe it is very rare indeed that a banker refuses four or five pounds: I know deposits have been brought into a bank as low as two pounds: if a labourer begins with saving two pounds, there is every probability it will soon increase." "The rule is to allow interest on every thing."—P. 124.

Mr. John Thompson.— "What class of the community is it that makes the smaller deposits? — They are generally the labouring classes, in towns like Glasgow. In country places, like Perth or Aberdeen, it is from servants and fishermen, and just that class of the community who save from their earnings, in mere trifles, small sums, till they come to be a bank deposit. The system of banking in Scotland is just an extension of the provident bank system: half yearly or yearly, those depositors come to the bank, and add the savings of their labour, with the interest that has accrued upon the deposit from the preceding half year or year, to the principal; and in this way it goes on, without being at all reduced, accumulating till the depositor is able, either to buy or build a house, or till he is able to commence business as a master in the line in which he has hitherto been a servant; a great part of the depositors of the banks are

of that description, and a great part of the most thriving of our famers and manufacturers have arisen from such beginnings."—"I believe this class of the community furnish one half of the whole deposits." — P. 159.

Mr. Robert Paul. — "Have you had any opportunities of witnessing the habits of the labouring classes of people in Scotland, and can you speak to the utility of their deposits to them? — I have had many opportunities, both professionally, and in various situations in which I have been placed, of observing the effect of these deposits; and I do think that the system of the Scotch banks, allowing the rate of interest which they have done upon those small deposits, has influenced very considerably the moral character and condition of the people of Scotland.

"What proportion do you think the small deposits bear to the whole amount of the deposits? — I should think fully one-half.

"I think the whole of the deposits may be taken at twenty millions. P. 202. — The deposit is seldom drawn out, until the depositor has to build a cottage or buy a house; or perhaps he may himself begin business, or set out his eldest son in the world; or, it may be, furnish a house for his daughter at her marriage. A deposit is often laid up for old age: and, in many instances, I have no doubt, has likewise been the means of enabling men in the humble classes of society to give their children what we, in Scotland, value above all the advantages of wealth — the benefit of an intellectual and religious education."— P. 203.

This evidence so fully explains the good effects of these cash credits, and of the practice of giving

a liberal rate of interest on deposits, upon the extension of industry, the accumulation of capital, and the encouraging of moral habits, that it is unnecessary to say any thing more respecting them as they regard these great national objects. Their influence, in serving as a check upon an excessive issue of paper, is not less salutary, because the charging of interest against every one who has a cash credit for the sum outstanding, and the allowing of interest to every one who has a balance in his favour, necessarily leads both parties to pay into the banks daily, every note which is not actually wanting for the subsequent day's business. This gives constant activity and an efficient operation to the exchanges of notes by the bankers, and places every banker in the situation of being exposed to receive back in the course of a few weeks, or even days, every note that he issues, and even to be called upon to pay it by a bill at par upon London.

SECTION X.

The Irish System of Banking.

In no country, perhaps, has the issuing of paper money been carried to such an injurious excess as in Ireland. A national bank was established in 1783, with similar privileges to those of the Bank of England, in respect to the restriction of more than six partners in a bank; and the injury that Ireland has sustained from the repeated failure of banks, may be mainly attributed to this defective legislative regulation. Had the trade of banking been left as free in Ireland as it is in Scotland, the want of paper money that would have arisen with the progress of trade, would, in all probability, have been supplied by joint stock companies, supported with large capitals, and governed by wise and effectual rules.

In 1797, when the Bank of England suspended its payments, the same privilege was extended to Ireland, and after this period the issues of the Bank of Ireland were rapidly increased. In 1797, the amount of the notes of the Bank of Ireland in circulation, was 621,917*l.*, in 1810, 2,266,471*l.*, and in 1814, 2,986,999*l.*

These increased issues led to corresponding increased issues by the private banks, of which the number was fifty in the year 1804. The consequence of this increase of paper was a great depreciation of it; the price of bullion and guineas rose to ten per cent. above the mint price, and the exchange with London became as high as eighteen per cent., the par being 8⅓. This unfavourable exchange was afterwards corrected; not by any reduction in the issues of the Bank of Ireland, but by the depreciation of the currency of England, which became as great as that of the Irish currency in the year 1810, when the exchange between London and Dublin settled again at about par.

The loss that Ireland has sustained by the failure of banks may be described in a few words.

It appears by the Report of the Committee on Irish Exchanges, in 1804, that there were at that time in Ireland fifty registered banks. Since that year, a great many more have been established, but the whole have failed one after the other, involving the country from time to time in immense distress, with the following exceptions: first, a few that withdrew from business; secondly, four banks in Dublin; thirdly, three at Belfast; and, lastly, one at Mallow: these eight banks, with the new provincial bank, and the bank of Ireland, are the only banks now existing in Ireland.

In 1821, in consequence of eleven banks having failed nearly at the same time, in the preceding year, in the South of Ireland, Government succeeded in making an arrangement with the Bank of Ireland, by which joint stock companies were allowed to be established at a distance of fifty miles (Irish) from Dublin, and the Bank was permitted to increase its capital 500,000*l.* The Act of 1 & 2 Geo. IV, cap. 72, was founded on this agreement.

But Ministers having omitted to repeal in this act various restrictions on the trade of banking, that had been imposed by 33 Geo. II, cap. 14, no new company was formed. In 1824, a party of merchants of Belfast, wishing to establish a joint stock company, petitioned Parliament for the repeal of this Act of Geo. II, and an act was accordingly passed in that session, for the repealing of some of the most objectionable restrictions of it (the 5 Geo. IV, cap. 73).

In consequence of this act, the Northern bank of Belfast was converted into a joint stock company, with a capital of half a million, and commenced business on the 1st of January, 1825. But the remaining restrictions of 33 Geo. II*,

* With respect to the repeal of the Irish Bankers' Act, 33 Geo. II, cap. 14, it is a question of public policy, unmixed with any matter relating to the Bank of Ireland. The entire Act, except sections 2, 3, 4, 15, is for the purpose of having

and certain provisions contained in the new acts of 1 and 2 Geo. III, and 5 Geo. IV, obstructed the progress of this company, and they found it necessary to apply to Government to remove

the estates of bankrupts, who may become insolvent or stop payment, vested in trustees for the benefit of their creditors: this may at first view appear calculated to prevent considerable expense in the settlement of the affairs of bankers, but the experience of above sixty years since the passing of this Act, proves that it has had directly a contrary effect; few instances having occurred in all that time of a banker's estate, which was vested under that Act, being brought to a final settlement at all, and not one instance without most expensive litigation in the Court of Chancery, which in some instances has continued upwards of forty years without being determined. At the time this Act was passed, the Bankrupt Laws were not extended to Ireland, and on that account it probably originated, bankers are now specifically subject to the Bankrupt Laws, and also the Traders' Act, 47 Geo. III, cap. 72; there cannot, therefore, be any reason for continuing a law originally introduced from the want of other remedies, which have since been provided. One evil of having bankers subject to two sorts of law is, that a new point of litigation is created, and the creditors have generally disputed whether the estate shall be managed under the one or the other.

Section 2 makes void all conveyances by a banker, though made for full consideration, if not registered within a month, but does not prevent a banker from selling and receiving the purchase money of his estates; it only imposes a penalty on the purchaser who may unwarily omit to register his deed, and so obstructs the facility of a banker obtaining money on the security of real estate, to meet his engagements.

Section 3 makes void all settlements made by a banker on his child or grandchild, though for valuable consideration,

them, and a bill was accordingly introduced, which would have repealed all the obnoxious clauses of the 33 Geo. II, had it not been so altered in the committee as to leave several of them in force. In 1825, the Provincial Bank of Ireland commenced business with a capital of two millions, and the Bank of Ireland have of late established branches in all the principal towns in Ireland.

The losses that have been sustained in Ireland by abusing the power of issuing paper have been so great, that much more is necessary to be done, by way of protecting the public from future loss, than the measure proposed last session by Ministers, of abolishing small notes, and the measure already adopted of allowing joint stock companies

but does not prevent a settlement on any other relation of a banker, or on any stranger.

Section 4 makes void any note or receipt for money given by a banker, which contains an engagement to pay interest; but instead of subjecting the banker to the penalty for a breach of this law, it holds out to him a premium to commit it, by subjecting the unwary creditor to the loss of the entire money; and legally enabling the banker to defraud the public.

Section 15 prohibits any officer entrusted with the receipt of public money or revenue from being a Banker or discounter, which seems superfluous, when Government can at once dismiss the officer offending.

These sections remain unrepealed.

Observations on Act of 33 *Geo. II, c.* 14.

to be established in the interior of the country. As the main source of the evil consists in the interference of the law in creating a national bank with exclusive privileges, the first step that ought to be taken for introducing a good system into Ireland is the getting rid of such a bank, and opening the trade of banking in Dublin. The next measure should be, the requiring of each bank to give security for the amount of paper that it issued; for after the experience of the ignorance with which the Irish Banks have conducted their business, and the derangement of the natural course of the trade by the long existence of the Bank of Ireland, it would be unwise to calculate upon a sound system of banking speedily supplanting that which has been established.

If a system of banking of this kind was allowed by law, it is probable that it would become in all respects like the Scotch system. The banks would be obliged to establish the practice of regularly exchanging their notes, and of paying the balances in coin, or in bills of short date on London: such a practice, coupled with requiring security, would effectually prevent weak banks from being established; and would keep the currency, at all times, of equal value with that of London.

Under the circumstances in which Ireland is placed, nothing would so much contribute to

her rapid improvement in wealth as the introducing of the Scotch plan of cash credits, and of paying interest on deposits. By cash credits, the capital which now exists would be rendered more efficient, and the paying of interest on small deposits would lead to habits of economy, and to the more rapid accumulation of new capital.

The charter of the Bank of Ireland has still to run till the year 1838; but as the charter of the Bank of England expires in 1833, unless measures are taken for getting rid of that of the Bank of Ireland in 1833, each part of the United Kingdom will after that year have a separate system of banking. As nothing could be more pernicious or absurd than such a state of things, the getting rid of the Bank of Ireland charter before it reaches its natural termination is indispensably necessary; and that being the case, the present would be the best time for making an arrangement with the Bank for opening the trade at once, in order that as little delay as possible should take place in establishing in Ireland a sound system of currency.

THE END.

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DIALOGUES

ON

4

CORN AND CURRENCY,

BETWEEN

SIR JOHN THICKSCULL, M.P.

AND

MR. WISEACRE.

LONDON:

JAMES RIDGWAY, PICCADILLY.

MDCCCXXVII.

LONDON:
PRINTED BY T. BRETTELL, RUPERT STREET, HAYMARKET.

DIALOGUES

ON

CORN AND CURRENCY.

THICKSCULL.—I tell you I know nothing about the Currency, and never shall be made to understand it.

WISEACRE.—So your idleness tells you; but as I, and other possessors of "land and beeves," have had the misfortune to mak you our representative, it is really your duty to know some little more about the matter; and I care not if I become your instructor.

THICKSCULL.—You are bloody polite; how would you set about it?

WISEACRE.—By putting a few questions which you, or any one of your numerous family, cannot help answering properly. For example: you say you want a remunerative price for your Corn; what do you mean by the word price?

THICKSCULL.—I understand value, measured in the current money of the country.

WISEACRE.—Bravo! are you aware that the price of commodities varies according to the quantity of money in the country? But I see I must explain this. Let us suppose a small island, whose whole stock of commodities shall be divided into 1,000 equal parts, which shall consist, one of a quarter of corn, another of a cwt. of cheese, a third of a cwt. of sugar, &c. of equal values;

the money of the island shall consist of 3,000 sovereigns: in that case, what shall we suppose the exchangeable value of each of the 1,000 lots of goods?

THICKSCULL.—Why, three sovereigns, to be sure.

WISEACRE.—Admirable! But suppose some conjuror arrives, and sets up a bank here, and issues 3,000 bits of paper, each promising, upon the faith of the Government or the issuer, to pay a sovereign whenever required. Here would be a doubling of the currency at once. What, then, would be the price of each lot of those commodities, which before sold for £.3 each?

THICKSCULL.—Six pounds, to be sure.

WISEACRE.—Well, then, I have the honour to congratulate you upon understanding quite as much about Currency as is necessary for the purpose of securing your estate. The Bank of England is the conjuror, who has, at different times, augmented and diminished the amount of current money sometimes 20, sometimes 50 per cent.; and whenever she has so done, the value of the Thickscull estate, and its produce, has been affected in the same ratio;—with this difference, that you are pretty sure to sustain the *loss*, while those to whom you lease your farms reap the profit of the favourable increase, as they pay you no more rent, while they get double prices for their commodities; till the day of change arrives, when they are hurried into ruin by low prices, without the most distant conception of the cause.

THICKSCULL.—Well then, prices of provisions are governed entirely by the quantity of money in circulation, and not by protecting duties?

WISEACRE.—Undoubtedly. The proof is, that when you had a protection up to 80*s.*, you were selling (in the year 1822) corn at 40*s.*; and why? because the Bank had, when you and Lady Thickscull were wondering you got no rent, reduced the money of the country, to half its amount in 1818, when the price of a quarter of corn was precisely 83*s.*: the abundant harvests which followed, did not prevent wheat again rising to 68*s.* in the year 1825, when the Bank and Government thought proper to increase their paper issues (together with the country banks), to the amount of 10 or 15 millions.

THICKSCULL.—Then it appears that my estate and my farmer's ricks, are worth just whatever value the Bank and the Government are pleased to put upon them.

WISEACRE.—Certainly; so long as you are fool enough to submit to the robbery.

THICKSCULL.—How often do these tamperings with the currency occur?

WISEACRE.—They are constantly going on in some degree; for the Government, whenever it suits its purpose, gets the Bank to buy up its securities, alias exchequer bills, &c.

THICKSCULL.—Please to explain how a return to the ancient standard affects property and the value of commodities.

WISEACRE.—Yes, if you will go back to our

island, when we left the conjurer who had just doubled the price of every thing, by his issue of paper money.

THICKSCULL.—Well, what changes occurred next?

WISEACRE.—Another conjurer (a Jew) arrived, who told the king of the island, and all the civil and military officers, he could put them in a way of doubling their salaries by cheating the landlords and farmers, who were too stupid ever to find it out. Accordingly, he gave out, that it was time to have done with paper-money; that they ought to return to the money of their forefathers; and that all the loss to the owners of land and goods, would be about 3 per cent. This was backed by the testimony of some old nardacs of the first class, and the law passed, which soon banished the bits of paper, and brought down commodities to their old price; doubling all the debts, private and public, and increasing the pressure of taxation in a similar degree.

THICKSCULL.—Why then they must have been a pack of the most infernal knaves that ever existed in any country on earth. What became of them?

WISEACRE.—Oh, they remained in power long after; much applauded by those they had enriched, and not found out by the others.

(To be continued.)

OBSERVATIONS

ON

THE CORN LAWS,

ADDRESSED TO

W. W. WHITMORE, Esq. M.P.

IN CONSEQUENCE OF

HIS LETTER

TO

THE ELECTORS OF BRIDGENORTH.

LONDON:

PRINTED FOR

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OBSERVATIONS

ON

THE CORN LAWS.

SIR,

YOUR Letter to the Electors of Bridgenorth is distinguished by a fairness and liberality, which give it every claim to attention on the part of those, to whom the corn question is a subject of interest. Agreeing with you in many of the positions which you support, but being of opinion that there is much danger, in the present state of public feeling, of precipitancy in the alteration of the corn laws which are now in force, I take the liberty of addressing to you, as one of the most able and candid supporters of the commercial interest, a few remarks on the subject, to which an attentive perusal of your letter to your constituents has

given rise. You state, in unequivocal terms, your "*fear*" of "the immediate effects" to be produced by an alteration of the present system of corn laws, unless we proceed in the measure "with great prudence;" and that, in amending such laws, it is "most desirable "that we should not expose, to unnecessary "hazard, an interest so extensive and so im-"portant as the agricultural interest of this "kingdom."

When a gentleman like yourself, of independent character and circumstances, and eminently conversant with the philosophy, if not the details of commerce, comes forward as the champion of the mercantile world, and, with a candour and ingenuousness which are highly creditable to you, makes the admission which I have now mentioned, it ought fairly to be expected to curb the impetuosity of those, who are disposed to overlook practical considerations of expediency, in their anxiety to conduct legislation on philosophical principles.

The reign of ultra-ism in politics is over; but there is, in fashion, a species of ultra-ism in political economy, which requires the more attention from practical men, because it is thought to evince, in the possessor, a somewhat flattering degree of liberality and freedom from pre-

judice, which may be safely indulged in by the most cautious politicians, because it does not carry with it the indications, or obligations of party.

Landholders have been represented as a proud and interested body of men, having the power to check improvements, and the disposition to make laws in subserviency to their own purposes. Farmers have been described as mercenary and discontented, as making the most of their grievances, and watchful for opportunities of sounding them to the world. Agricultural meetings and petitions have been condemned as an unnecessary interference with the progress of liberal opinions, and decried as unworthy attempts to excite warmth, and to raise up an improper influence in the consideration of an important national question. And yet who were the persons that commenced the discussions on the corn laws two years since? It cannot be denied, that agriculture had been in a state of extreme suffering for some years previously, and that it was then just beginning to emerge from a state of exhaustion which had scarcely ever a parallel. It is likewise very well known, that at that time, manufactures and commerce were in a high, and I believe, unexampled state of pros-

perity, founded, in a very important degree, on the increased consumption which the improvement in agricultural affairs produced at home; and yet this was the period chosen for commencing an outcry against landholders and farmers, which could not, when soberly viewed, but be regarded as premature and mistimed. They were represented as gorged with the spoils of the public, though their prices were not one half what they once were; and the most sensitive feelings of our nature were excited against them, though every one at all conversant with the subject must have known, that such prices, for the short period of their continuance, and you yourself admit the fact, could not, by any means, make up the severe losses of former years.

It is not to be wondered, then, that meetings should be held in the country as well as in towns; and that associations should be formed for the protection of agriculture, when a single movement of the corporation of London, or of any principal manufacturing town, excited, perhaps, by the exertions of a single bustling individual, is able, in an instant, to sound an alarm through the whole kingdom. Agriculturists may be unreasonable in their claims and expectations, and many of them are so;

but they would really be the stupid and doltish individuals which some are inclined to represent them, if they did not see, that the simultaneous efforts which the activity and union of commercial men are so readily capable of making against their interests, aided, as they generally are, by much of the powerful exertions of the daily press, can alone be met, and counteracted, by activity and union on their part.

The most important part of the discussion which is carried on in your letter to your constituents, relates to the *necessity* for certain alterations in the corn laws, and the *advantages* which such alterations would be likely to produce.

You give it as your opinion, that the landed interest attach far too much consequence to the present corn laws; and that their fears are greatly exaggerated, as well respecting the quantity of wheat that could be furnished to us by foreign countries, as the price at which it could be introduced into Great Britain. But, supposing this to be the case, are not the advantages to be derived from the admission of foreign corn, overrated in precisely the same ratio?

If your statement is correct, that the free importation of corn is so small a boon, as far as agriculture is concerned, as not to be worth refusing, how are we to reconcile this view of the subject, to the magnitude and importance which it is represented to possess in commerce, and which makes it dangerous to be withheld?

In optics, it is well known, that indistinctness of vision produces many errors in the estimate of the size of bodies; a crow, in a mist, appearing as large as a man, or a horse as a castle. With men of less clear understandings, I should be inclined to refer, what appears to me so material a defect in the main argument of your letter, either to that species of optical deception which I have just mentioned, or to the microscopic influence of a fervid imagination.

Importation of corn is considered as operating in two ways; first, by reducing its price in this country, and thus allowing British manufacturers to diminish the wages of labour, and therefore to compete with other countries where the prices of labour are less; and, secondly, by enabling our manufacturers to transmit to such countries as send us corn,

an equal amount of their manufactures, which could not be purchased in any other way.

When you state that 600,000 quarters of wheat are as much, and even more than can reasonably be expected as an average of importation, which, at 24*s.* per quarter, would cost 720,000*l.* from the grower, it cannot but forcibly press itself upon the consideration, whether this amount of annual importation would be at all likely to remove the difficulties under which manufactures and commerce at present labour, or in any material degree to advance their general interests.

We are informed by Mr. Jacob*, that in the year 1810 our exports (setting aside fractions) amounted to sixty-two millions; and that a deduction of fifteen millions of colonial produce re-exported, left an amount of forty-seven millions, which consisted entirely of British produce and manufactures. This sum is not far, I believe, from the truth at present, though I have not at hand the full opportunities of ascertaining the point. It is apparent, however, that if this is at all near the average of our exports, an addition of 720,000*l.* to

* Considerations on the Protection required by British Agriculture, and on the Influence of the Price of Corn on exportable Productions, by W. Jacob, Esq. F. R. S.

them, would be only a sixty-fifth part of the whole; and it is difficult to see how an increase of our exports to this extent, though, of course, useful as far as it goes, can be the means of rescuing our manufacturers from a state of utter depression and debasement, to that of the high prosperity which, we are told, would be the effect of repealing the corn bill.

You are too candid to insist, that the distress of the manufacturing districts is mainly attributable to the corn laws. You admit that it is *not* strictly dependent upon them; and speak with a feeling of doubt on the extent to which they are even accessary, in increasing the difficulties which our manufacturers have so largely experienced. It can hardly be questioned, that the great cause of those difficulties is the weight of goods with which machinery and enterprise have loaded them; and it does not appear, on any calculation of the amount which a probable annual importation of corn bears to the probable mass of accumulated production, that the relief to the manufacturer would be very sensibly felt, by an importation being permanently allowed by law, to the extent which you mention. In point of fact, an experiment has been made, as you yourself state, of an admission into our

markets, of corn from Canada, or from bond, during each of the two last years, to an extent nearly equal to that for which you contend, and yet without any material influence arising from it, in either preventing, or removing the evils complained of.

It seems, indeed, to be apparent, that no permanent extension of trade can keep pace with production, which is conducted as if demand were interminable, and unlimited.

In reasoning from the past to the future, you appeal to the period between the years 1773 and 1815, as proving the very high state of prosperity which Great Britain enjoyed, in all the particulars which constitute the greatness of a country; and you connect this with the existence of a principle of law, relative to the importation of corn, which was interrupted at the latter period. I have no difficulty in admitting the correctness of your statement, as to the rapid strides which this country made during the period mentioned by you, and particularly the latter part of it; but cannot consider this as having any thing to do, either with the facility of importing corn, or the quantity imported.

It is rather the year 1767, than 1773, that should have been mentioned as that in which

a greater than ordinary importation commenced; for the average excess of annual importation, up to the latter year, was nearly as great as that of the first five years of the halcyon period mentioned by you, and was much greater than that of the third and fourth five years; while, in the second, it is to be observed, that the exportation exceeded the importation, nearly as much as the importation did the exportation at any, and more than at two, of the periods just mentioned.

This will be seen more distinctly from the following tabular view: —

From 1767 to 1772, both inclusive, the annual average excess of *imports* above exports, was	120,778
From 1773 to 1777	149,588
From 1778 to 1782 excess of *exp.* 95,930	
From 1783 to 1787 excess of *imports*	84,577
From 1788 to 1792	70,123
	425,066
Deduct excess of exports	95,950
	329,136
Annual average of the 5 periods	65,827

From 1793 to 1797	482,620
From 1798 to 1802	779,397
From 1803 to 1807	439,012
From 1808 to 1812	454,067
1813 & 1814	370,544
	2,471,640
Annual average of the 5 periods	494,318

It appears, therefore, that for twenty-six years, viz. from 1766 to 1793, in which twenty-two of the forty-two years quoted by you are included, the average excess of importation was not quite 70,000 quarters per annum, a trifle not to be named as having any sort of palpable national operation.

From the year 1793, up to 1814, inclusive, the importation of corn increased so as to make the annual average nearly 500,000 quarters, or, reckoning the value paid for it to the grower at 24*s.* per quarter, a seventy-fifth part of the exports of the country. The national population was, without doubt, at this period rapidly advancing; and this, with the exigencies of war, produced a greater than ordinary demand for agricultural produce. But the real cause of such an importation, small as it must be considered in a national point of view, is to be seen in the bad harvests, and deficient crops, which so frequently occurred between the years 1793 and 1812. On referring to Mr. Tooke's valuable work on high and low prices, you will find, that during this period, amounting to twenty-two years, there were no fewer than eleven years of scanty harvests.

Deficient production was therefore the ultimate cause of this increased importation; and,

in reasoning from effects, it would be just as philosophical to refer the prosperity of that period to bad harvests, without which such an extent of importation would not have taken place, and to advancing prices, which were the consequences of increased demand for corn in this country, as to a system of laws, which would have had no palpable operation, except under the uncontroulable circumstances of seasons.

An increased importation would have occurred on any necessity for it arising, if the change of law effected in 1773 had not taken place. Such was the fact after the deficient harvest of 1765; such was likewise the case after that of 1757; and those were two of the only three bad seasons which had occurred from the year 1715 up to the first mentioned period. The third was in the year 1740; and then it was found, that the extra supply wanted, was produced from our exports of corn being diminished from an average of above 300,000 quarters per annum, (as occurred in the preceding five years,) to less than 50,000 quarters.

It is a favourite idea with yourself, and other modern political economists, that a valuable result of a freer importation of corn, will be that of removing a principle of fluc-

tuation in the price of the article, which is regarded as materially depending on the present laws, and as equally unfavourable to the farmer, the landlord, and the consumer.

But I would appeal to the experience of the whole period to which our documents extend, whether it is possible, by any human efforts, to prevent fluctuations in the price of corn. A glance at Mr. Tooke's Tables will demonstrate that the thing is impossible; and that the effects of seasons, whether bad or good, will set at nought the pigmy efforts of human skill to counteract them.

It sounds very plausibly, too, that by a freer importation of corn, we allow the plenty of one country to counteract the scarcity of another; whereas, it is found, that Great Britain is very much an epitome of Europe; and that, from the best evidence which can be obtained on the subject, as given by Mr. Tooke, and as sanctioned by the high authority of the House of Commons itself, there is a prevalence of a general similarity of seasons, over the whole of Europe, within certain latitudes.

Mr. Lowe's information is highly important on this subject.*

* The present State of England in regard to Agriculture, Trade, and Finance, &c., by Joseph Lowe, Esq.

"The public," says he, "particularly the "untravelled part of the public, are hardly "aware of the similarity of temperature pre- "vailing throughout what may be called the "corn-country of Europe, we mean Great "Britain, Ireland, the north of France, the "Netherlands, Denmark, the north-west of "Germany, and, in some measure, Poland "and the north-east of Germany. All this "tract is situated between the 45th and 55th "degrees of latitude, and subject, in a con- "siderable degree, to the prevalence of simi- "lar winds. Neither the superabundance of "rain which we experience in one summer, "or its deficiency in another, are by any "means confined to Great Britain and Ire- "land; while in winter, both the intensity and "duration of frost are always greater on "the Continent. Exceptions certainly exist "in particular tracts; but in support of our "general argument, we have merely to recall "to those of our readers who are of an age "to recollect the early part of the war, or who "have attended to registers of temperature, "the more remarkable seasons of the present "age: thus, in 1794, the spring was prema- "turely warm on the Continent, as in England; "there, as with us, the summer of 1798 was

" dry, and that of 1799 wet: again, in 1811,
" the harvest was deficient throughout the
" north-west of Europe, generally, from one
" and the same cause, blight; while that of
" 1816 was still more generally deficient, from
" rain and want of warmth. In regard to a
" more remote period, we mean the seven-
" teenth and eighteenth centuries generally,
" if the temperature has not been so accurately
" noted, we find, from the coincidence in
" prices, that it is highly probable that there
" prevailed a great similarity in the weather
" of the Continent; thus, in France, the latter
" years of the seventeenth century, the sea-
" sons of 1708 and 1709, as well as several of
" the seasons between 1764 and 1773, were
" as unpropitious, and attended with as great
" an advance of price, as in England."

Similar statements are given by Dr. Adam Smith, as noticed by Mr. Tooke.

The forty-two years which you mention, as being remarkable for the prosperity of the country, presented a greater extent of fluctuation in prices, than any which has been experienced since; the lowest prices having been 36*s.* in the year 1779, and the highest 128*s.* 6*d.* in the year 1801. Here was a fluctuation to more than three and a half times the extent;

whereas a fluctuation to only about double the extent occurred since the year 1815; the highest price, 94*s.* being in 1817, and the lowest, 43*s.* in 1822.

Not less remarkable are the fluctuations which have occurred in the price of corn, from the year 1646, at which the registry begins, to the commencement of the period from which you date your calculation. A slight inspection of the table of prices will prove this to be the case; and the following are some of the most striking differences: —

	s.	*d.*	*s.*	*d.*
From 1648 to 1654, 6 years, the price varied from	75	6 to	23	1
From 1655 to 1659, 5	29	7 to	58	8
From 1662 to 1666, 5	65	9 to	32	0
From 1672 to 1674, 2	36	5 to	61	0
From 1674 to 1676, 2	61	0 to	33	9
From 1676 to 1679, 3	33	9 to	55	0
From 1687 to 1688, 1	22	4 to	40	10
From 1689 to 1693, 4	26	8 to	60	0
From 1695 to 1696, 1	47	0 to	63	0
From 1698 to 1702, 4	60	9 to	26	0
From 1706 to 1709, 3	23	1 to	69	9
From 1710 to 1715, 5	69	4 to	38	2
From 1716 to 1719, 3	42	8 to	51	0
From 1723 to 1725, 2	30	10 to	43	0
From 1727 to 1728, 1	37	4 to	48	5
From 1728 to 1732, 4	48	5 to	23	8
From 1740 to 1743, 3	45	1 to	22	1
From 1743 to 1746, 3	22	1 to	34	8
From 1755 to 1757, 2	30	1 to	53	4
From 1757 to 1761, 4	53	4 to	26	9
From 1761 to 1765, 4	26	9 to	48	0

It seems to be demonstrable, therefore, that no alteration which can be made in the system of corn laws; no assimilation to what has been regarded as the practice of former periods, will, in any material degree, prevent that fluctuation of prices, which, though depending mainly upon the season, you are disposed to regard as very much the fruits of the present system. In considering the subject of fluctuations, you are, indeed, a little hard upon state doctors, without considering how natural it is for doctors to disagree, and how difficult is a decision as to the judgment exercised, either by the medical or political physician, when it is by the result, not by the means employed in effecting it, that ability is for the most part estimated;— "ab eventu, præcipue, "honorem aut dedecus reportant." But when you charge the Parliamentary faculty with throwing their patient, the agriculturist, into an ague, you appear to forget that there is such a thing as mistaking an ague, which is generally considered as an innocuous and manageable sort of complaint, for a more formidable disease, and thus endangering, by severe or mistaken remedies, the production of a more severe malady.

You seem not to bear in mind, likewise, that the mere difference of feeling, which is experienced in a variable climate; or, perhaps, the little chilliness, or slight cold, to which the most healthy, in our insular situation especially, must be subject, may be conjured up to the most formidable symptoms, calculated to excite alarm through the whole kingdom, and to accumulate prescriptions and exorcisms from every part of the empire.

> " Et Metus, et malesuada Fames, et turpis Egestas,
> Terribiles visu formæ."

The ague-fit is, however, nothing more, in fact, than the maladie du pays of this and of every other country; and, unless a process can be invented for changing climate, and producing a sort of artificial temperature in the atmosphere, it will be in vain to expect to submit it to Parliamentary authority.

In representing the natural progress of nations to be from the agricultural to the manufacturing state, you employ a very common and a very specious view of the subject. America should, therefore, according to this hypothesis, be solely, or principally a grower of corn, which she should dispose of to Great

Britain for manufactures, which ought to be the chief objects of our attention.

But, because we have extensive manufactures in this country, is this a reason why farming is to be a secondary consideration with us, when, according to your own estimate, we are to depend for twenty-two parts out of twenty-three of our consumption of wheat, and of course for an equal, or even greater degree, of many other articles of growth, on the production of our own country, or of Ireland?

Would it be politic, likewise, in America, because she is a new country, to lend herself to this hypothesis, and to give up to old Europe, all claims to commerce and manufactures, and trust to the sale of her corn, for procuring manufactures, colonial produce, and the luxuries of the East?

America has good ports, and an active enterprising people, and it would be bad policy in her not to direct part of her energies to the production or procurement of various articles of importance in life, with which to exchange, as we do in this country, for the product of her own soil.

You state the various circumstances which prevent America from exporting much corn,

and England from receiving much; and to what use, therefore, unless the hypothesis can be applied on a large scale, is the hypothesis at all? England ought to be, by calculation, the largest corn-importing country in the world, and yet you consider the importation of one twenty-third part of the produce necessary for her subsistence, as carrying your views into effect. The general experience of the world, indeed, seems to indicate, that no country which has soil enough, and that of sufficiently good quality to grow corn to feed its inhabitants, will depend, for any large supply, on foreign countries.

I know that with many, however, it is a common notion, and particularly with the political economists of large towns, that the cultivation of corn, in this country, should be entirely a subordinate consideration; and that it would be the best policy for a nation such as ours is, which is largely concerned in manufactures, to trust for our principal supply of grain to other countries, which could grow it at a cheaper rate, and which would at all times be glad to exchange it for our manufactures.

If we consider your statement, and that of Mr. Jacob, as to the probable amount of im-

portation of corn into this country, to be at all correct, and compare this with the greatest importation which has taken place, under every temptation of gain to the foreign grower, it will be seen that this view of things is of a very extravagant nature, and is a deduction of mere theorists.

It would be difficult to define the precise kind of land to which alone the attention of the farmer ought to be directed, in producing corn in this country.

During the very high prices of grain which existed some years since, all sorts of artificial manure were employed, at a very heavy expense which could not at present be borne, in increasing the productive powers of every description of land; but we may, I think, safely infer, on the subject of cultivation, that if a farmer depends for his manure, on stock which he is able to support by hay, natural or artificial grasses, or green crops grown in rotation with white ones, on his own ground, without having recourse to oil-cakes, or to the production of other farms, he will not be carrying on his husbandry at such a rate as will require exorbitant prices to remunerate him. There is unquestionably a value of production, at which land of an inferior quality will not

only afford no rent, but not pay for any sort of cultivation bestowed upon it; and of the policy of reducing prices, so as to throw such land out of cultivation, you express your decided disapprobation. You doubt, indeed, whether a single acre, now cultivated with profit, would cease to be cultivated, after such an alteration of the corn laws has been made as you consider necessary; but, at the same time, you very forcibly and feelingly observe, that if the consequence of the admission of foreign corn would be the driving the poor land of this country out of cultivation, your zeal for a change of law would be "considerably abated," by the dismal prospect of the "misery and desolation" which must be produced throughout the country by such a measure.

Some of our modern political economists consider the devastating principle against which you so properly contend, as a trifling little occurrence in society; a mere balancing of accounts between agriculture and commerce, in which the one or the other may happen, as the case may be, to be the debtor or the creditor.

It must unquestionably be from an ignorance of the extent of the evil, that such

gentlemen could view it with indifference, either as far as individuals, or the public are concerned. Theorists will go far in support of their opinions, and ultra-economists further than most men; but it would be difficult to conceive, that any could be found of such imperturbable coolness of mind, as to console themselves amid the misfortunes of any class of society, by the consideration, that they may have been produced according to true principles of philosophy, and with due regard to the symmetry of hypothesis; and that they ought, therefore, to be cheerfully submitted to, as necessary and unavoidable dispensations of Providence. Such politicians may be classed with those described by Bacon, as "gerentes " se pro centro mundi, ac si omnes lineæ in " se suisque fortunis debeant concurrere;" but it is not the good cheer, or the fascinating discussions of Political Economy Clubs, those noctes cœnæque Deorum, which, I am persuaded, will induce any Englishman, when it comes to the push, practically to concur in opinions, which would lead to that extent of evil which you have so strongly deprecated. During the years 1813 and 1814, we are told by Mr. Jacob, that an eighth part of the produce of the country in wheat, arose from cold

clay, and light sandy soils, which had recently been brought into cultivation. But an eighth part of the wheat consumed by the country is not less than 1,700,000 quarters, and this is equal to the whole amount of importation, even including the corn from Ireland, which has ever been produced from every stimulus which extravagant prices have given; and it exceeds, by three times, the quantity on which this country, according to your view of the matter, and that of Mr. Jacob, is able permanently to depend, for its supply of the prime necessary of life. Government, fortunately, form a third, and independent party, between those who push agricultural claims to an inordinate extent, and those who set them at nought, as antiquated and obsolete, and as being out of fashion in all good society; and, I think, we may fully depend upon their discretion and judgment, for not making near 2,000,000 of the population of this country, dependent on other countries for their principal subsistence.

But there is something besides putting land out of cultivation, which would be of the most unfavourable nature to a country. It is well known, that the productiveness of land mainly depends on keeping it clean and dry,

and in manuring it. If agricultural profits are much diminished, the farmer, in the first place, necessarily keeps down his labour as much as he can. In this way he lessens his growth. He is also able to keep less stock; and then he deprives himself of the very life's blood of production. But does not he likewise diminish the production of the country? and every one, who is the least conversant with agriculture, knows how readily this could go to the extent of half a quarter per acre in any description of land; and yet such a diminution would amount to a seventh or eighth of the whole produce of the country.

I cannot agree with you in the propriety of the blame which you throw against government, for having delayed, for two years, to bring forward any specific measure for altering the corn laws, after admitting that the law required alteration.

It is not an unfrequent subject of remark, that defects are sooner discovered than remedies; and government are surely not to be blamed because they took time, not only to obtain information on the general circumstances which were to direct their opinions on a momentous question, but to consider how

any changes were likely both to be received, and to operate.

They have instituted a very prudent and necessary enquiry as to the extent, as well as the price, at which supplies are likely to be procured from abroad; and, I trust, that such enquiries are still going on.

But, in order still further to pave the way for the alterations which Parliament may think necessary in the corn laws, they have admitted, as a preliminary measure, the importation of Canada and bonded corn; and in doing so, they have unquestionably prepared the market for that moderate and regular supply of the article, on which alone free importation can be permitted with safety.

This appears to you to be an excess of prudence; but with the necessity for caution which you so candidly admit, and with the portion of uncertainty which must attend all the data on which Parliament reason on the subject of the corn laws, I cannot but express my surprise, that you should have been an advocate for that precipitancy which an earlier alteration in them would have indicated. The fear is not unreasonable, you readily allow, that if our markets were open for "the "wheat of the whole world," we should be

liable "to be inundated by it; and that "changes of a fearful nature might conse- "quently take place in our agricultural pros- "pects." Is not this, therefore, a good reason for the corn laws being touched with caution? If the question related to letting off a large accumulation of water, particularly when you could not ascertain its depth with precision, you would not hesitate in the choice of gradual, or sudden means for effecting it. You would not endanger the inundation of a country, merely because a certain portion of irrigation was necessary, when, by the formation of proper pipes and sluices, you might accomplish all which we have occasion for, with safety? There is a growing conviction, that the present corn laws will soon be repealed, or essentially altered. This very conviction prepares for the change; and the decided infractions of law, which you view as irrational and unstatesman-like, are to be regarded as so many experiments, first to remove difficulties existing, and then to try the effects of future changes.

Farmers have a right to fear an inundation of corn; and you admit that it is natural for them to do so. They are, therefore, entitled to expect that such shall be effectually guarded

against. They have just begun to recover from a state of suffering; but they are told, that they must prepare for a little more of the same species of discipline, which brought so many of them to ruin.

The progress to health through augmented suffering, is not quite apparent to them; and it is not extraordinary, that they should have some difficulty in discovering the sagacity of that practitioner, who, when a patient was just obtaining a recruit from a severe illness (such as that from which you admit that agriculturists have not yet recovered), should, instead of continuing the regimen by which convalescence has been advanced, see, in the good appetite and improving looks of his patient, a melancholy presage of future ailments, and direct his view rather to keep down, than promote strength. Such a plan would savour of the discipline of Barataria; and would soon be felt, no less sensibly by the agricultural community than it was by the renowned governor, Sancho Panza himself. Sancho's stomach was in the habit of frequently speaking very intelligibly to him; and, as he had not gone deep into political economy, he was at a loss to understand the doctrine of his physician, "many thanks to him," who, as he

said, would have him "die of hunger, in order to live." "God grant the same life," cried the famished governor, "to Signor Doctor Pedro "Rezio Tirteafuera, and all those of his "tribe; I mean bad physicians, for good ones "deserve palms and laurels."

But the delay which you blame government for conceding, had likewise this advantage attaching to it, that it afforded an opportunity of examining into, and, if necessary, of correcting, by the result of all those enquiries which an active-minded public have opportunities of making, Mr. Jacob's reports as to the quantities of corn which the northern parts of Europe are capable of furnishing for exportation; and though I think we ought not, for various reasons, implicitly to rely on the correctness of his statements, even if not contradicted, yet their remaining unimpugned, after a sufficient period has elapsed for ascertaining their accuracy, is unquestionably a circumstance materially in their favour.

You mention, as a powerful reason for altering the fabric of our corn laws, that they are a flagrant deviation from our ancient scheme of policy. There is not much to be hinged upon an argument of this kind, because the change of circumstances which

time, the great innovator, produces, renders it necessary to accommodate laws to the existing state of society. But, in fact, our forefathers deemed it proper, by a statute passed so early as the 3d of Edward IV. ch. 2. (A. D. 1463) to prohibit the importation of corn when below a certain price, which continued till the reign of James I., and has occasionally, I believe, been resorted to since. This act * is

* "Whereas the labourers and occupiers of husbandrie within this realme of England, be dayly grievously endamaged by bringing of corne out of other lands and parts, into this realme of England, when corne of the growing of this realme is at a low price: our redoubted Sovereigne Lord the King, considering the premisses, by the advise, assent, and authoritie aforesaid, hath ordained and established, that no person from the Feast of Saint John the Baptist next comming, shall bring, or convey into any place or porte of this realme, by way of merchandize, nor otherwise, any wheate, rye, or barley which is not of the growing of this land, or of any ile pertaining to the same; or of the growing of the countries of IRELAND or Wales, at any time that the quarter of wheate doth not exceede the price of 5*s.* 8*d.*; the quarter of rye doth not exceede the price of 4*s.*; and the quarter of barley 3*s.*; of lawful money of England, within the place or porte where such wheate, rye, or barley shall happen to be brought, upon paine of forfeiture of the said wheate, rye, or barley. The one halfe to the use of our Sovereigne Lord the King, and the other halfe to him that shall happen to seise such wheate, rye, or barley.

"Provided always, that this acte extend not to any wheate, rye, or barley taken by any of the King's liege people upon the sea, without fraud or couine."

remarkable for the introduction of a kindly feeling towards our sister island, which, as far as corn is concerned, now forms, much to the credit of all parties, and eminently to the advantage of both countries, one of our permanent and unchangeable relations.

An authority, therefore, which is still more ancient than that which you have brought forward, may be pleaded in favour of the enactment of 1815, with all "the parade of patriotism," as you are pleased to term it, with which it was supported. Most men have some interests or other in great questions, and many are improperly biassed by them; but I am not aware of any one who supported the corn laws, on the puerile ground, of having *solely* in view the good of the country. I should be as little disposed to give him credit for ingenuousness, and an absence of all personal feeling on such a subject, as I should the manufacturer, who professes to call out for cheap bread, solely in order that the poor may be better fed, when his real object is, that he may pay them less wages, and have an increased demand for his goods. The interests of both classes are inseparably connected. The manufacturer, merchant, and tradesman, consume the corn grown by the farmer,

who unquestionably owes, to the increase of manufactures, and the extension of trade and commerce, a great increase of demand for his produce; but the farmer, landholder, and all who are more or less remotely connected with the soil, and who form the largest part of society, are the best customers of the manufacturer and merchant; and I think there is no doubt, that if domestic demand is materially affected, the want of it would be little compensated by the foreign market.

The modifications which Parliament have deemed it proper to make in the corn laws of 1815, render it probable, either that these laws will be a good deal altered, or that a constant importation, with a protecting duty, will be substituted for them. The occurrence of heavy crops after the large importations of 1818 and 1819, and the consequent glut of corn, and reduction of price, tended to convey to the minds of agriculturists themselves, doubts as to the policy of a statute, which knows no medium between full admission, and complete exclusion.

If Parliament should, however, be disposed to permit constant importation, with a protecting duty (which is exceedingly probable), it will then be a grave matter of consideration,

what amount of duty will afford a sufficient protection to the British agriculturist. An average price of from 60*s.* to 64*s.* per quarter, seems, by the instructions given to Mr. Jacob*, to be that which Government considers as sufficient to remunerate the grower of corn; and Mr. Jacob thinks, that with a duty of 10*s.* or 12*s.* per quarter on imported wheat, it would require an average price of above 64*s.* to re-establish the trade with the Baltic. You yourself consider an average of 55*s.* as the utmost to which it would be politic to raise the price of wheat in this country; and view this price as one, which, with 10*s.* or 12*s.* of duty, would be sufficient to produce the same effect. But here is a difference in opinion, of such magnitude, as to show clearly, that with the best information, and, I think I may say, with the best intentions, there is a great liability to err in all calculations of this kind. With your strong feelings in favour of change, you admit that we are at present "legislating "somewhat in the dark;" and you are so little confident of the propriety of any specific enactment on the subject, as to be favourable, in the first instance, to a graduated scale of duty,

* See Mr. Jacob's Report, 1826.

which may afford the necessary experience which is now wanting on the subject, and enable us best to meet the difficulties of the case, and to reconcile the conflict of interests involved in the question.

At the same time it is to be observed, that in your regulated scale, you consider 10*s.* as a sufficient protecting duty when corn is at 55*s.*, and 5*s.* when it is at 65*s.*

With a difference of four or five millions per annum, between what Mr. Jacob and you consider, on the one hand, as remunerative to the farmer, and, on the other, as sufficiently encouraging to importation; with a difference, likewise, of nearly one half, between what you regard as a sufficient protection, and what he does, it is quite obvious, that no precise duty can be now determined upon, which can, under every circumstance, be admissible, or which can, in any way, be satisfactory to all parties. It is important, therefore, to feel our way in this difficult species of legislation, and to take especial care that there should be no occasion to retrace our steps.

The late Mr. Ricardo, a gentleman of distinguished talents and acuteness, and, moreover, an enthusiast in the corn question, was of opinion, that 20*s.* per quarter, in the first instance,

was not too great a protection for the British farmer; and that this duty should be reduced, by the sum of 1*s.* per ann., till it reached 10*s.* From an observation contained in the Report of the Agricultural Committee of 1821, it would appear, "that there never was an im-"portation of foreign corn, to any amount, "during the short intervals that the high "duties were demandable; and yet those "duties, at no part of the time, exceeded "24*s.* 3*d.* per quarter." This, therefore, seems to be beyond the duty which it would be desirable to fix upon in the first instance. But Mr. Ricardo's proposition of 20*s.* to commence with, is a prudent and safe one; for a high protecting duty would guard against that influx of corn which is so much a subject of apprehension among agriculturists, while, at the same time, the duty could readily be reduced, either after experience has demonstrated that such fears were groundless, or after any accumulation which there might exist of foreign produce, has gradually come into the market, and passed off.

If the views which you and Mr. Jacob entertain, as to the small probable amount of future importation, be correct, where would be the disadvantage of gradually preparing

the agricultural world for the permanent permission of an importation, bearing so small a proportion as that proposed, to the whole exportation of the country? Prejudices would thus be removed by the delay, and apprehensions allayed. For if next harvest should be a plentiful one, or Mr. Jacob's and your calculations prove a little erroneous (neither of which circumstances are improbable), the most serious and irremediable mischief might be induced by want of caution in so important a subject. It is very well known, and you candidly admit the fact, that "one season of agricul- "tural distress sweeps off numbers of the "poorer farmers; and that if it continue be- "yond that period, as it most commonly "does when it once begins, the whole farm- "ing body feel it most severely."

You lay great stress on the propriety of conciliating the good opinion of the manufacturing population, by acceding to an alteration in the corn laws; and you apostrophise the agricultural community to agree to their wishes, with a seriousness and pathos, which are hardly justified by the benefit which you assume will be produced by such alteration. But are they not warranted in doing their utmost to prevent any changes being made in the

present system, without a guarantee against the evils which may be produced by them? Is it not fair to expect, that when their existence as an important part of society is at stake, something more than specious assurances should be afforded, that the changes so urgently demanded will not be injurious? A portion even of morbid apprehension may be excusable in men who still smart under recent suffering; and in whose minds, perhaps, a little dread may likewise be produced, on comparing the ardour with which changes are pressed, with the small advantages which, according to ostensible calculations, they are likely to effect. They may be inclined to suspect some ulterior, unknown, and deleterious influence, beyond that which is represented to them; for I am inclined to think, that if a guarantee could be given, that no more importation than 600,000 quarters would, under ordinary circumstances, take place, their fears would be considerably removed.

Now, with regard to the reasonableness of these fears, I would observe, that though great attention is due to the interesting information which Mr. Jacob has furnished, relative to the probable quantity of grain to be afforded by the Baltic, there are many circumstances

which may affect its accuracy, and materially alter or modify the expected results.

In the first place, corn has always been capable of being procured, in very much more than the ordinary quantity, when there was a great demand and a large price. In the years 1801, 1802, 1811, 1818, and 1819, the average excess of importation above exportation, exclusive of Ireland, was 1,283,941 quarters of wheat; though the average excess of importation above exportation, for twenty years, from 1801 inclusive, was 543,179 quarters, and setting aside the five years of large importation, 369,976 only. The average price of the three first mentioned years was respectively, 113*s.* 7*d.*, 118*s.* 9*d.*, and 106*s.* 2*d.*; but of the year 1817, 94*s.* 9*d.*; and of 1818, 84*s.* 1*d.* Here, therefore, was an example of a difference of no less than 34*s.* 8*d.* between the inducements thus afforded to the importation of corn into this country; and we are hardly capable of demonstrating, in such a way as to remove the necessity of caution, that after the long period at which importation into this country has been prevented, no glut could, under any circumstances, again overwhelm the English market; particularly if Mr. Jacob's calculations, (as I have before

observed,) be a little erroneous, or the next harvest in this country be very favourable.

We do not hear, unfrequently, of goods being sold at a loss, under an urgent demand for money; and though this will not affect the general interests of trade, (for it is clear that no trade will be long carried on without gain), yet it may have an unfavourable operation at a particular period. So it is with a trade in corn; and it is only by insuring, at the commencement of a new system, against an overwhelming glut, that any material changes in the corn laws are admissible. Duties, in this case, ought to be viewed as experiments; but it would be very unphilosophical, in instituting experiments, to contemplate, and to be prepared, for one particular result only.

The Agricultural Committee of 1821, whose Report is distinguished by great judgment and moderation, were alive to the dangers of a glut of foreign corn, after the ports had been shut only thirty months. They have now been shut (except during a short period for oats) for more than three times that period; and the market price of any corn which may be accumulated in consequence, cannot now, any more than at that time, as the committee very properly observes, be considered "as the mea-

" sure of the cost at which it has been pro-
" duced, or of the rate at which it can be
" afforded by the foreign grower, but the re-
" sult of a general glut of the article, of a
" long want of demand, and of the extreme
" distress and heavy loss on the part of those
" by whom it has been raised, and of those
" by whom it is now held, either in the ware-
" houses of the Continent or of this country."

You consider the adoption of an improved principle in legislation as important; and you view as a public benefit, the dismissal from our code, of certain laws which you regard as injurious, as contrary to common sense and sound judgment, and as deranging the natural and most beneficial order of things. It surely, then, can be of little moment, at what precise period, whether a year or two sooner or later, so salutary a change as that which you recommend in those laws, comes into full, and complete operation. You admit that we are legislating "somewhat in the dark;" you allow that all calculations relative to the influence of certain changes on the price of corn "are liable to
" considerable error," and that "nothing but
" experience can decide the exact level at
" which prices would settle, after the existence
" of the trade for so long a period, as to have

" produced its full effects." I am justified, therefore, in the expectation, that in waiting for this experience, the agricultural community shall not be placed in a state of unnecessary peril.

It is an ungracious sort of discussion to compare the respective importance of different classes of society. Both parties, perhaps, think too strongly upon this subject, and magnify, to an undue extent, their own consequence. All, however, agree in considering our *home* trade as the most valuable to the country; and a very little consideration will evince to any one, who is at the trouble to examine the question, how much the prosperity of this trade is connected with the fair position in society of the landholder, farmer, and all who are connected with them in the various meanderings and ramifications, into which the landed interest is spread.

The merchant, manufacturer, and tradesman possess more rank and importance in this country than any other. Their talents and energy merit this distinction; but with the rise which they have obtained in the scale of society, it is no wonder that the Agricultural Committee, " looking to the institutions of " the country, in their several bearings and

" influence in the practice of our constitu-
" tion, should be in a high degree anxious to
" preserve, to the landed interest, the weight,
" station, and ascendency which it has enjoyed
" so long, and used so beneficially."

It may be said, that the elevation of the agricultural interest, by the profits of land, has been, of late years, more in proportion than that of other classes. It is quite certain, that though it did not profit by the loans, contracts, and other good things, which have poured wealth so lavishly among mercantile men, and by almost the monopoly of the trade of the world, which the latter so long possessed, agriculturists enjoyed, for a few years, an important advantage in the high price of agricultural produce, and in the increased value which this, and an improved system of cultivation, afforded to them. But then high prices did not depend, in any great extent, as they have been supposed to do, on the protections afforded to them as a favoured class of the community; for on this subject we are informed by Mr. Tooke, (who is the more unexceptionable authority, because he is exceedingly favourable to the commercial view of the corn laws,) that he entertained doubts " whe-
" ther the prices of corn, within the last

" twenty or thirty years, have been kept up " so much by the protecting duties, as by the " great expenses attending importation, *and by* " *the prevalence of bad seasons, both here, and,* " *I believe, taking the majority of years during* " *the period alluded to, on the Continent.*" Bad seasons give a rise of prices; for what would otherwise compensate for the diminution of quantity in corn? But that good seasons alone, will reduce prices, is proved, not only by the table of fluctuations which I have given at a former part of this letter, but, in an extraordinary manner, by the diminution from, I believe, 6*l.* to 70*s.*, in the autumn of 1813, which took place by mere exuberant production, independent of exportation, or any change, either in the value of money, or our external relations.

High rents to the landholder, and high gains to the farmer, have been for many years only a matter of history. The prices of late periods have been occasionally lower than even the average of prices so far back as the commonwealth, and of Charles II., the former having been 48*s.* 1*d.*, and the latter 43*s.* 7*d.*; and even at present, the price, 53*s.*, does not greatly exceed that of the former of those periods, though the difference in the value of money is so considerable. Let not the landed pro-

prietor, therefore, be lowered still more than the late reverses in agricultural affairs have depressed him; let not the cultivator of the soil, the manufacturer of corn, as he may be termed, be forced into the lowest class of our manufacturing population. The manufacturer can, as you very properly observe, apportion his supply to his demand; but uncertainty is the very essence of the farmer's profession.

Great, however, as the rise of agricultural produce, and consequently of the rents of lands had been, in the first twelve years of this century, that did not give the landholder an advantage, in the long run, over the possessor of personal property. Stockholders are said to have had their property reduced during the period of war, from high prices at which they may have purchased, to low ones at which they might be obliged to sell. But is it not apparent, that if there were persons who bought into the public funds at the highest, and were obliged to sell out at the lowest prices, there is an ample set-off in the great depression which has taken place in the value of land, between the prices at which numbers have invested money in the purchase of estates during high prices, and the trifling return with which they are now obliged to be satisfied, or the great reduction at which they may be

compelled to sell them? Laws, it is obvious, cannot be accommodated to extreme cases.

But, in point of fact, the great mass of stock has been funded on advantageous terms to the possessor; some of it at a little more, and none of it at much less than five per cent. A rise, therefore, from an average of sixty or sixty-five, gives an immense advantage to those who may choose to sell out at peace prices; while the alteration of currency which has of late years taken place, is a bonus of a very important character to all stockholders; and is a totally unexpected, and a somewhat unreasonable gain to those, who have invested their money under a great depreciation of value.

There is, however, another circumstance relative to the comparative advantages of the possession of real and personal property, which does not appear to have been attended to.

If we suppose two persons who were possessed, at any particular time — say sixty years ago—of equal properties, for instance, 10,000*l.*, which the one invested in land, yielding three per cent., and the other on mortgage, yielding five per cent., it is by many considered as a circumstance highly favourable to the possessor of land, that his property may now, or might some years since, be worth three times its original value. And

this might certainly be the case; and the possessor of money, or his representatives, be still worth the identical sum which was originally possessed. But then, the incomes, in the mean time, differed materially; and if instead of spending 200*l.* per annum more than the landholder, the mortgagee (and the same reasoning applies to other possessors of personal property) had made a sinking fund of this extra income, he would have found that his property would have been increased to full as great, or a greater extent, than any rise which could take place on land; and that the longer the period was, the greater would be the difference in his favour. In thirty years, his 200*l.* per annum would double his principal; and if, in the same time, land had a similar increase of value, the one would then possess 20,000*l.* in money, bearing an interest of 1000*l.* per annum; the other, land worth 20,000*l.*, and producing a rent of 600*l.* per annum.

If the mortgagee, in the next thirty years, employed his extra income, (which is now 400*l.* per annum above that of the landholder), he would find, that at the end of that period, his original 10,000*l.* had become 40,000*l.*, and that he had an income of 2,000*l.* per annum; of which, supposing that the estate had

doubled likewise in value and rent, he would have an income above that of the landholder, of no less than 800*l.* I am satisfied with leaving each of them with four times their original patrimony; but it is clear that the increase of the value of land has a limit, that of the prudent management of money has none. I do not mean to say, that there are not some circumstances in the possession of land, which give it increased consideration with many; but still the question, at present, relates to comparison of pecuniary advantage.

I wished to have said something relative to the deficiency of revenue, which a diminution of home consumption, by an alteration in the circumstances of agriculturists, and all those connected with them, might produce; to notice the great rise which would necessarily [illegible] foreign produce, on opening our markets to it; and to advert to the bad policy of being obliged to trust to a foreign power, perhaps unfriendly to us, and at all events, disposed, as was Prussia, to take advantage of our necessities, for the support of any considerable part of our population. But this would be to get still further into topics which I did not originally contemplate, and I must have done; for my object, in the present letter, has been prin-

cipally to show, — 1st, That the alteration of law contended for, if its operation has been correctly apprehended by you, is not of the high importance which it is represented to be; and that if it has not been correctly apprehended, the difference affects your whole train of reasoning, and makes the agricultural, a new and more difficult question, as far as you are concerned. 2dly, That in carrying any alteration into effect, the interests of an important class in the community (for which you do not appear to me to have sufficiently provided), should not be endangered; and, 3dly, That if such alteration should be made, a protecting duty ought to be established, larger than that you contemplate, and of a sufficient amount to remove, or quiet, every reasonable alarm of the agriculturists; which duty should be so [redacted] ar-ranged, as to be lowered [redacted].

I have the honour to be, Sir,

Your obedient servant,

THE AUTHOR.

Feb. 9, 1827.

THE END.

NATIONAL

POLITY AND FINANCE;

PLAN

6

FOR ESTABLISHING A STERLING CURRENCY,

AND

RELIEVING THE BURDENS OF THE PEOPLE.

EXTRACTED FROM THE LITERARY GAZETTE,

BY THE EDITOR.

LONDON:

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1827.

338.9142

ADVERTISEMENT.

In order that the following Plan may be conveniently viewed as a WHOLE, and not in detached Papers as it has appeared through ten successive Nos. of the Literary Gazette; and in order that observations may be made upon its various parts with perfect facility of reference, a form of printing has been adopted (in which the lines, instead of the pages, are numbered), which will at the same time enable those who find cause of objection to state it definitely, and others to answer and explain with equal distinctness, and without the necessity of much quotation or repetition.

EXTRACTS

FROM

LORD LIVERPOOL'S SPEECH.

" As the circulation at present stands, the effect upon the lower orders and the poorer classes of society is, in the event of a crash, disastrous in the extreme. (Hear.) The poor man, who earns his bread by his labour, cannot refuse to accept the country bank note, and he cannot retain it; he must expend it in the supply of his daily or weekly wants.

" Let your Lordships for a moment reflect upon the consequences of such a crisis as the late one to the labouring classes of the community. I ask noble Lords to think of the situation of a large town in a manufacturing part of the country, when a great banking establish-

ment becomes insolvent—(at the same time I would ask your Lordships to recollect, that within a very short period, 70 or 80 banks have been placed in that situation.) I say, in such a case, just conceive the situation of the poor inhabitants of that town or district. They have put their savings into the bank, in return for which they hold its notes: this is the situation of the upper class of labourers; for the lower, they are in the weekly habit of taking the small notes in payment of their wages. My Lords, I know something (which of your Lordships do not?) of the distress that must then be occasioned. Instances have come within my own observation, where these poor and unfortunate individuals have had to hawk about those small notes, offering them to purchasers at the price of five shillings (perhaps less) each."

" I admit that I can conceive of a state of society in which, supposing your

system of banking to be sound and solid in its nature, you may make a paper circulation answer the ends and effect the objects of commercial dealings."

"I conceive, my Lords, one of two systems must be adopted; first, either one of wise and salutary restriction;—as, for instance, by saying we will have a limited number of banks,—one, ten, or fifty. Or let us exact securities for their solvency from the banks we admit of."

"I am desirous of alluding to a doctrine which has gone abroad on the subject of the currency. I think it the more necessary to advert to it, because it was stated in rather broad terms by a noble Lord, on the first day of the session. It is contained in this proposition,—that nothing is better than a paper circulation convertible into gold. My Lords, for my part, I believe the proposition to be fallacious, and only

true to this extent,—that such a circulation carries its own cure along with it. (Hear.) I repeat, the thing is evil, but carries its own remedy. And what remedy is that, my Lords? We have all witnessed its effects lately; we can trace it in the past ruin, and the now subsiding panic; it is visible in the ruin of trade,—the confusion of the money-market,—and the total destruction of public and private confidence. It is a cure, my Lords, which is operated by the misery of the poor,—the destruction of the rich, —the loss of thousands,—and the ruin of hundreds of thousands. (Loud cheering.) This is the objection, *the vital objection, to a paper circulation convertible into coin.* It is a doctrine carrying with it destruction to property, and utter ruin to credit, public as well as private."

"The present system of law as to Banks must now be altered in one way or other. It was the most absurd—the

most inefficient—it had not one recommendation to stand upon.

* * * * *

" The present system was one of the fullest liberty, as to what was rotten and bad; but of the most complete restriction, as to all that was good. By it, a cobbler or a cheesemonger, without any proof of his ability to meet them, might issue his notes, *unrestricted by any check whatever;* while, on the other hand, more than six persons, however respectable, were not permitted to become partners in a Bank, with whose notes the whole business of a country might be transacted. Altogether, this system was one so absurd, both in theory and practice, that it would not appear to deserve the slightest support, if it was attentively considered, even for a single moment."

" The object of every description of currency should be to make the value of

property as steady and as little variable as possible.

* * * * *

"The truth lay there, and he who solved that problem would certainly come to the wisest conclusion."

Endeavouring to arrive at this conclusion, the following Plan has been submitted to the British Public.

NATIONAL

POLITY AND FINANCE.

N° I.

7th October, 1826.

AMONG our notices in last Gazette we intimated the intention of laying before the public the outline of a great Plan for improving the currency and resources of Great Britain, to which we attributed very extraordinary powers and qualities, and from the adoption of which, we expressed our opinion the most unlimited prosperity would result. Such is our conviction; but at the same time we bring this affair forward with diffidence, because it is not altogether within the scope of those studies to which we have paid most attention: and though it has not failed to attract a considerable share of our inquiry, we do not feel competent to speak in any other manner concerning it, than as wishing to explain the subject in the clearest way we can, and courting the judgment of others competent to decide on so weighty a matter.

In setting out, we are fortunately relieved from the necessity of entering into any of the various topics which demand so much discussion from writers on what is called Political Economy. The *principle* of the system unfolded to us, may have been hinted at in former times; but the system itself, its application and its details, appear to be absolutely new and original. Therefore, there is no author upon finance, the science of money, the internal wants of countries, international intercourse and commerce; there is no politician of any school or determinate mode of thinking on those difficult points; there is not one of these who may not, though differing from every other author or politician, agree in opinion that the present proposition is at once well-founded, practicable, and highly expedient. The measure, in short, stands by itself: it neither assimilates nor clashes with any theory, or the part of any theory, which has yet been promulgated. It can therefore provoke no opposition, while—earnestly indulging in the hope that it may produce the utmost benefit to the nation—it courts the mature and deliberate consideration of all who are conversant with such subjects, and solicits the favour of their counsel, and objections, if such arise in their minds.

We have also previously to say, that as we are confining ourselves to that brief general

view which the nature of our publication requires, we feel that we can but very inadequately develop the author's comprehensive system; and that we must do still less justice to his most complete and admirable details, which form, as it were, the strength and essence of his design, and render it fitting, pliable, and excellent in all its operations.

"It may be assumed as a truism, that not only the recent panic and distress which have convulsed society throughout this kingdom, but that all the financial and commercial calamities recorded in history, leading to the decline and fall of states, have been caused by a debased and fluctuating currency. No rank, no individual, can stand in a safe, assured, and permanent position in the social frame, while the representative of fortune, means, and value, is liable to great mutations and changes. Double the amount of the circulating medium, and the effect must follow, that several classes of the community rise unduly, while other classes fall into embarrassment and ruin. Diminish or debase it, and a similar result is equally certain: some gain comparatively by the alteration, and many more are precipitated from their sphere of usefulness, and destroyed.

It is impossible, therefore, to conceive any proposition better deserving of the mature deliberation of the statesman, patriot, and

philosopher, than one which has for its object to fix the currency of the country upon a sure foundation,—to produce that emblem of property for all men to carry on their dealings with each other, which shall never be doubted or fluctuating in value,—to give to the meanest holder of the smallest sum the same security which is enjoyed by the richest in his large possessions,—and, in fine, to furnish for every transaction in life requiring pecuniary adjustment, the means of completion with undeviating exactness on all sides, the measure or medium being unsusceptible of rise, depreciation, or alteration of any kind.

From the earliest times we have seen a number of devices employed for this purpose with disadvantages, inconveniences, and dangers, lesser or greater as the medium employed was better or worse; till at length gold has, by very general consent, been accepted nearly throughout the civilised world, as the most eligible standard of value by which to regulate the interchange of all commodities between man and man, and between nation and nation. And assuredly there is no substance in nature every way so fit for this important office as the precious metal whose combination of rare qualities has led to its being so preferred. But gold, with all its rare qualities, is far from being a perfect standard. It has always been liable to be

affected by extraneous circumstances, — the discovery of a productive mine, the interception of supplies by war or otherwise, the gradual absorption by use and manufactures, and a multitude of other causes; and it is incontestable that what is unstable in itself can never form a true scale whereby to adjust on stable bases the relative value of all other articles. Gold may approximate this scale more nearly than any other substance; but gold varies often to a great extent, and therefore gold (even were it not objectionable for other very strong reasons) can never supply a safe, fixed, and permanent rule by which to estimate all other prices. When we allude to other strong objections, though we shall have more to say upon the point hereafter, it may be well in this place to notice, that we refer to the facilities with which gold is made a source of speculation to swollen capitalists and traders in bullion and foreign exchanges.

Having thus very briefly shewn that we do not possess *the* standard so much to be desired, we shall proceed with as much plainness as the matter permits, to state the plan by which we are firmly persuaded that object may be attained.

In order to ensure to the country a sound, settled, unchangeable, and imperishable *currency;* a currency of real value representing absolute tangible property, and, from the

ampleness of its security, not being subject to question or depreciation from any cause whatever, it is proposed to fabricate *a sterling national paper*, founded on and representing the property hereafter defined, and issued and controlled under responsibility as doubtless and lasting as the British constitution itself. We presume to affirm that such a paper currency may be produced that no man in Great Britain will ever question its real value for one instant; and, farther, that it shall be preferable in every respect, and preferred by all, to gold.

Firstly; It is proposed, that government shall stamp all the paper (as well as bullion) intended to be issued as the current money of the country: that the notes so framed and executed shall be deemed the lawful currency of the realm; and in order to prevent the evils attendant on the abuse of issuing notes without limit, it shall be unlawful for any banker, or others, to issue any other notes than those so framed and executed.

Secondly; That there be established one national bank, from which alone the said notes shall be issued for circulation.

Thirdly; That all bankers, or others, requiring notes for circulation, shall apply for the same to the National Bank; to which, previously to their receiving the said notes, they shall pledge, as a security for the payment of the same, either freehold land or

funded property, unencumbered, of the value of two hundred pounds sterling money for one hundred pounds sterling paper currency, and at the same rate for any sum whatever.

Fourthly; That there be kept, subject to public inspection, a national register, in which shall be registered a full description of the security pledged, its *bonâ fide* value, and the proprietor's name and address.

This is the principle of the plan. The land of England shall be coined to a certain limit, and a part of the funded wealth of the country shall be convertible into a circulating medium — double, or a greater proportion of both, being pledged in security to the note-holder, from one pound to millions of pounds.

Hence we think we may have abundance without superfluity; we may have abundance combined with perfect security; we may have abundance subject to prudent regulation. To what height of prosperity such a currency is capable of raising a country, we shall not pretend to determine; but we are free to express our firm persuasion, that if the principle were considered to be inapplicable to an old people, and were yet acted upon by a new government (firmly established so as to impart to it the needful confidence and stability), it would speedily render that nation the greatest upon the face of the earth.

N° II.

14th October, 1826.

In the last Literary Gazette we opened to the public the *leading principles* on which it was proposed to form an entirely new national and sterling paper currency; and we pledged ourselves to enter so far into the details of this plan as to enable every man of common understanding to perceive that its practicability was equal to its expediency, and that its effects in execution were calculated to be not less important and beneficial to the country, in points the attainment of which are earnestly desired, than its general scope and powers. In performing this portion of our task, however, we have again to notice that we labour under certain disadvantages: we cannot (though perfectly convinced ourselves) go so minutely into all the ingenious and striking inventions and ramifications devised by the author, as either to do him justice or completely prove the case: but this, we are bold to say, is our misfortune, and not the fault of the scheme; and we throw ourselves upon the candour of our readers to believe, that where we fail in explicitly shewing its eligibility and great fa-

cility, or in removing objections to it, the deficiencies are owing to our circumscribed limits, and may readily be remedied when and wheresoever this stupendous measure comes to be fully investigated and discussed.

On resuming our exposition, we are glad to avail ourselves of the admission of a very influential Journal, and one of high authority upon questions of this nature. The *Times* of Monday observes upon the proposition—"This would unquestionably furnish us with a more economical circulation than that consisting of the precious metals, *and one to which no reasonable objection could be made on the score of security;* but, on the other hand, it would be one which in times of embarrassment, when the temptation to abuse was strongest, the government of the day might depreciate by increasing to an infinite amount. The idea, however, may bear discussion," &c.*

Upon this we may be permitted to remark, that it was utterly impossible for any writer, possessed of a knowledge of the subject, to concede more than is here conceded to the statement contained in our Gazette, which was simply initiatory, and entered upon none of the provisions by which not only the appre-

* The *British Press* Newspaper has also, we observe, fully concurred in the opinions of its contemporary, and gone still more explicitly into the approval of our Plan.

hension of the possible evil consequence expressed by the *Times* must be completely dissipated, but by which every contingency of creating political influence,—of admitting of partiality or injustice in administering the plan,—of raising a superabundant circulating medium,—of being available for wild or monstrous speculations,—and of not fulfilling all its own pretensions in relieving every class of the community, and especially land-owners,—will be removed. And we will further declare, that it must lead to the almost total, if not total extinction of the crime of forgery;—that it must render usury not merely harmless, but, where legally sanctioned, advantageous to all parties;—that it must simplify all pecuniary transactions throughout the kingdom, and in a way that will render loss by carelessness or robbery impossible;—and that, finally, it might raise a revenue equivalent to the amount of all the assessed taxes, without being felt by one subject of the realm. These may seem strong and even paradoxical declarations, but we are prepared to demonstrate them all—allowing us, as has, so far as we can learn, been allowed to us, the soundness of the grand principle which we have laid down as the fulcrum on which the whole must move and act. That fulcrum is neither more nor less than converting a certain proportion of the real wealth and capital of Great Britain into gold—represented

by a national paper, and doubly, quadruply, or tenfold secured; and thus adjusting every transaction by a measure of immutable and sterling value, instead of the unsettled, fluctuating, unauthorised, privately and individually issued, and, in many instances, fictitious currency; according to which the internal business and mighty commerce of the Empire has been and is at this day arranged.

Having established the basis of our system, we now proceed to consider the means for its formation and operation, its checks, guards, and limits. There must be a fountain-head, controlling the whole machine; itself controlled by fixed and unchangeable laws. The responsibility would be of the utmost character, from the immense extent of the interests at stake, and the purity demanded for the administration of a nation's resources. But method and the division of labour would accomplish the first; and the immutability of the governing rules, and everlasting publicity in every branch, would guarantee the last. The whole should be a system of checks, the result produced by which must be integrity in the conduct of the establishment, and accuracy in all its parts.

An *Argus* (for names are of no consequence in explaining our purpose) should have placed under its management, be it individual, or board, or other organised body, by appoint-

ment or election, (under the watchful and constitutional eye of the Legislature,) the whole of the great but simple machinery requisite for the Plan. There should be, as we have stated, ONE BANK, the present Bank of England being preferable to any other establishment which could be framed *de novo;* and, throughout the country, hundreds, or, if necessary, thousands of other banks, in direct dependance upon, and correspondence with, the principal. The more numerous these were, the better would it be for the country; the facilities of interchange would be greater, the personal knowledge of responsible agents more generally diffused over the community, the circulation carried more minutely into every corner, and the guards against forgery or imitation made almost, if not altogether, insuperable.

There should also be ONE MINT (say the existing Government institutions), where all the gold, silver, and paper currency should be coined and stamped. We do not disguise our opinion, that the metals would very soon yield to the superior utility and value of the paper.

The third grand feature of the Plan should be ONE LEDGER; affording cash credits to subscribing customers, who, being freeholders, or possessors of funded property, perfectly unencumbered, and otherwise available, should by their signature therein pledge their estate

or stock as a security equivalent to double the amount* of their cash account, each for himself respectively, and for so long only as his account should remain open and unsettled.

It is obvious, on this point, that where mortgages or other liens already exist upon freehold property which the proprietors desire to convert into currency, particular measures, consistent with the law of the land, must be taken to free it, *à priori*, from all encumbrances; for the public creditor, the note-holder, must be the first as well as the best secured.

The paper currency, founded on the pledges laid down, should be made by and originate with the *Mint*, and pass thence to the *Bank* only, where it should be signed and otherwise protected; and from the Bank be finally issued to the authorised customers who had drawn, at their option and conveniency, for so much, or for the total amounts of their credits. These notes, as a farther safeguard, should be transferable to the order of the customer,

* We have assumed double or twice the amount of security as a datum amply sufficient to satisfy the public creditor or holder of the paper; but should it be thought, on calculation, that these premises might afford a superabundant medium, not sufficiently prevented, as we hold it would be, by the Plan in another of its provisions to be hereafter treated of, the security might be made three, four, or more times greater in proportion.

(whose indorsement, without making him responsible, would give confidence to the next holder,) and with any such notes, or other mint-currency or bullion, *the account of any customer might be cancelled at will, and all his responsibility removed.*

Having thus far furnished the currency, and placed it at the principal reservoir, ready to be distributed over the country, the next considerations presented for us, are to devise fit and easy means by which it may be made to flow into its proper channels, may be confined within right bounds, and may be safely returned when it has fulfilled the purposes for which it was issued. The machinery appears to be of a simple character. At the fountain is the supreme head of Finance, with his subordinate establishment, which, for distinction sake, we have called the ARGUS of the system. In this official power we should repose mighty trusts, requiring vigilance, fidelity, wisdom, and firmness; whence the necessity for publicity, to prevent any possible abuse, or to check it. To this power we should commit the charge to act as sound policy dictated under all important circumstances—such as the occurrence of foreign loans, the arrival of good or bad national news, the falling out of war, or the return of peace; in short, whenever any public cause of

panic, or of the reverse, arose, so that the speculations of intended monopolists might be defeated.

It should vigilantly inquire into the necessities of the country, generally, partially, or individually, and regulate the issues accordingly, by increasing or contracting them.

It should scrutinise all the pledges of freehold property, of funded property, by rules laid down, and admit or reject accordingly.

It should prefer the smaller pledges, especially those that originated in industry and economy, to leviathan pledges; and thus multiply the supporters of government, the holders of national property, prevent combination, and promote a more equable, more general, and more governable diffusion of currency and property.

Next to these, the chief financial and political requisites of the system, we should look to the perfection of the Plan, as founded on the *ledger credit*, so called from its originating in sterling, tangible property, pledged in the public national ledger, as a special security for half its *bonâ fide* value, by a solemn act of the proprietor, publicly recorded, for the special purpose of obtaining a disposable capital, in proportion to the amount of security available, in such sums and at such times as his occasions might require, in order to enable him to exert his energies and employ his talents,

as a benefactor to society; but, more especially, in his immediate neighbourhood, where local habits and local knowledge offered the most obvious and extensive means of rendering his capital useful and safe.

To this individual, or to any association, company, trustees, &c. &c. having pledged property to the nation, it now becomes necessary to forward the circulating medium resulting from the credit so obtained. This should consist of *tokens*, or *pounds sterling*, as being what their name imports, STERLING, an epithet by which this genuine English money is distinguished from all other monies, being a legal pledge to the owner of tangible freehold or funded property, free and in all respects unencumbered, mortgaged by its proprietor by his signature and seal in the national ledger, as a special security of at least 2*l.* for 1*l.*, held by the crown in trust, and redeemable at will, but only by his discharging the full amount or balance of the cash credit for which the pledge was given.

Let us farther impress upon our readers, that its creation, duration, and suppression, being matters of complete publicity, afford ample security to other creditors.

Surely a token of such sterling character, a representative of real property, so sound and wholesome, and so void of fluctuation, might fairly be considered a fixed standard of value,

N° III.

21st October, 1826.

HAVING explained the foundation whereon it is proposed to erect the system to which it is the object of these papers to invite public attention and discussion; and having shewn by what means and under what superintendence a *sterling national paper* might be framed and issued, we need hardly take much pains to repeat and enforce the positions on which we take our stand. The Note or Token, representing the land, or funds, or bullion, of Great Britain, which it is the spirit of our design to circulate, should besides being sterling, speak nothing but the truth. It should not, as the Bank note of this date, say, "I promise to pay on demand" that which it is well known cannot be paid on demand, there being perhaps not 20 millions of gold in the country with which to discharge 60 millions of paper; nor could that small modicum be long retained in it by any means with certainty, whilst improvidently dispersed throughout the nation, subject to the dealers' grasp. Our symbol should, on the contrary, expressly declare its nominal

even of gold and silver; and as the bullion of our soil, the bullion of our constitution (since with either it must exist or fall), it might safely be recognised by foreigners as the genuine English pound sterling; and thereby even become current over Europe as a universal medium of exchange.

With this gratifying supposition, our space obliges us again to take our leave of the subject for another week, when we shall return to its further consideration and explanation.

N° III.

21st October, 1826.

HAVING explained the foundation whereon it is proposed to erect the system to which it is the object of these papers to invite public attention and discussion; and having shewn by what means and under what superintendence a *sterling national paper* might be framed and issued, we need hardly take much pains to repeat and enforce the positions on which we take our stand. The Note or Token, representing the land, or funds, or bullion, of Great Britain, which it is the spirit of our design to circulate, should besides being sterling, speak nothing but the truth. It should not, as the Bank note of this date, say, "I promise to pay on demand" that which it is well known cannot be paid on demand, there being perhaps not 20 millions of gold in the country with which to discharge 60 millions of paper; nor could that small modicum be long retained in it by any means with certainty, whilst improvidently dispersed throughout the nation, subject to the dealers' grasp. Our symbol should, on the contrary, expressly declare its nominal

value, and that it either was or was not convertible, as the case might be; and that it was secured to double its amount, or more, upon land or funded property originating in a cash credit. Candour is not likely to provoke panic.

Let us suppose, for example, that A. B., of the parish of C. and county of D., obtained a credit of one thousand pounds in the National Ledger by pledging his estate of E., worth two thousand pounds—he draws out as many notes of 10*l.*, or higher denomination, as suits his perfect conveniency; and for the remainder of the sum, notes under that value which form a class peculiar to the district or division in which he resides. These are payable to him; and indorsed by him before paying them away. Here is, in the first instance, a check to forgery almost amounting to a prevention;—for it ought always to be borne in mind, that it is the vast quantity of the medium imitated, and its vast extent of range over the whole kingdom, which offer temptation and the chance of impunity to the forger. Limit that medium to a circle of a few miles, and guard it by signatures and other checks well known in that circle, and then the smallness of the sum that could be forged, the difficulty attending the forgery, and the imminent risk of immediate detection,

must operate so strongly as to eradicate the crime.

It is in our contemplation that the National Paper would become the circulating medium in every part of the country; for were it possible to believe the owners of property in any particular quarter so insensible to the benefits that must arise to them from the command of capital, as to decline availing themselves of it—still, transfers of securities from one person or one body to another would speedily spread this currency over the whole land. But, for the reasons we have stated, we would not have it of a common and universal sameness. Every circle, district, or division, on the contrary, should have its own peculiar note, (especially the small notes, if any exception were made with regard to the large ones,) which note should be limited and confined to the district for the use of which it was issued. The small note of Manchester should not travel to Liverpool for circulation, nor the small note of such a part of Surrey be current in such a part of Kent. Every portion should be distinctly localised, and by the daily and usual practice of exchanges, not the slightest inconvenience could ensue; while, on the other hand, the sterling paper, as well as the security on which it rested, would be familiar to the

holder of every pound. The workman who took his wages on Saturday evening should be able, from always seeing the same thing, to distinguish it perfectly from any imitation, and at the same time to feel that such a piece of paper was the note of an opulent neighbour whose estate was pledged to the nation and to him for its security. Upon what ground, let us ask, could any panic or run arise out of a coinage or circulating medium of this wholesome stamp? What could be feared by the holder? what more or better could be wanted by any party from whom he wished to purchase a commodity?*

Let us figure to ourselves Great Britain divided into ten thousand parishes or circles,

* It would be quite satisfactory to any labourer, mechanic, or shopkeeper, holding a one pound note in his hand, to say, "That field which I can see daily within a hundred yards of my abode is answerable for this piece of paper—for its being worth what it is denominated, 'a pound sterling;'—it is no matter whether the land is itself worth ten pounds, or five, or only two, it is sufficient security for the circulating medium in my possession, for which it is openly pledged, and liable before all other claims or demands whatever." Unless all value is an abstract quality or fiction,—unless a bar of gold or silver is intrinsically superior to fifty acres of cultivated land, then assuredly the currency, amply secured upon the latter, must be preferable to that which it is the utmost aim of those who insist upon what they call real values in currency to have convertible at will into precious metals.

and supplied, agreeably to this method, with a currency of 1000*l.* each, as follows:—

1	Note of £100	.....	100
4	.....	50	200
10	.....	20	200
20	.....	10	200
20	.....	5	100
50	.....	2	100
100	.....	1	100

In all 205 notes, indorsed, as before prescribed, by the customer only, but without his incurring any responsibility. Here we have readily and simultaneously issued the sum of *Ten millions* sterling,* which amount can be augmented as readily if required by circumstances, or gradually and easily diminished by the receipt of taxes or other means, should a partial absorption be found necessary. But do not let it be forgotten, that whether increased or lessened, the matter is to be publicly and openly done. Every occurrence, and the state of the bank at any moment, must be on the face of its transactions, and comprehensible at one glance. From hour to hour, by regular and clear books, kept constantly up to the latest period, it should

* Suppose the amount quadrupled, or sextupled, and you have, with the same ease, a perfect and secure sterling currency for the whole business of the country; authorised by the legislature, and limited to a maximum, so that no undue influence in any quarter could ever arise.

be obvious what number of notes were issued, of what kinds they were, and where the radius of circulation had demanded their augmentation, and where their diminution. In a local point of view, it appears to us that this system would be perfect in its operation, and that there would always be money enough for the demand, money to stimulate industry, and money with which to carry on business of every kind, without the bane of debts and credits; in other words, of frauds and extortions, that grind the faces of the poor.

N° IV.

28th October, 1826.

THERE is one part of the Plan upon which we have not yet animadverted, and which seems to offer essential benefits to the community. The Notes heretofore treated of are of two kinds, those of the larger denominations issued generally for the more extended use of every portion of the empire, and the smaller ones, localised for the use of their respective districts. But when there existed a National Credit *for every individual* who had property to invest, and when its paper was *diffused throughout the country*, does it not follow that there might also be devised *a symbol of that credit*, by which a person might at appointed times and places authenticate the share which he possessed of it, and turn that share into a species of currency, without deranging, augmenting, or diminishing the currency itself? We shall not minutely describe the process by which this desirable end might be attained; but we will state that the result would be this:—A. B. has a credit in the national bank at London for 5000*l.*, which he wishes to employ in the

purchase of goods at Sheffield, and of cattle in the North of Scotland. Travelling to Sheffield and Scotland, instead of the risk incurred by carrying money, he could be provided with such a voucher from the bank as would serve his purpose at the places whither he travelled, and where he meant to transact business. Thus a man might carry his fortune about with him on his person, and never encounter the danger of losing a shilling of it. He might call into operation the whole or any part of it, as his occasions required, and he should not have the power to exceed his real means, were he ever so much inclined to commit that offence.

But it may be needful to explain this idea a little further; since it might, in a modified way, be extremely advantageous even under existing circumstances. The Document to which we refer should partake of the character of a *Passport* and of a *Letter of Credit*, without being of the nature of either. Its qualities as a *Passport* should be contrived to identify the owner, so that if he lost his voucher it should be mere waste paper to any other bearer: and as a *Letter of Credit* it should be still further guarded, in order to prevent forgery.

We may here recapitulate, for the sake of being more clearly understood, that the *Ster-*

ling Paper Currency, which it is proposed to establish, would consist,

First, of Notes of the smallest denominations, and limited to prescribed circles in proportion to their amounts: by this precaution, the paper being small in quantity, localised and familiar, it does appear to us that to attempt to forge it must be not only unprofitable, but an act of desperation.

Secondly, of Notes of the larger denominations, from five pounds to the highest sum; also, in a certain degree, limited to prescribed circles, in proportion to their amounts: these circles, it is evident, might be allowed a wider radius in consequence of the facility with which large notes can be traced; so that the crime of forgery would still, with regard to them, be attended by increased difficulties and danger.

But, *Thirdly*, to preclude the possibility of inconveniency from any limitations, the *Road* or Travelling Note we have above attempted to describe, has been devised; and we may perhaps be allowed to say that, by similar expedients, some of the evils which beset the currency of the country, as it exists at this moment, might be very materially lessened, if not entirely corrected.

In this Gazette (reserving for hereafter the further explanation and application of the

principles we have laid down), we are desirous of offering a few remarks on the important point which occurs in all questions of the kind we are discussing, namely, the convertibility of all paper currency into gold. This is strenuously contended for by a number of able writers, and it may be granted that a considerable prejudice or partiality exists in its favour; which disposes us to meet the argument candidly and plainly. With such a currency as we propose, doubly or quadruply secured on what is more valuable than gold, we do not feel that there is the least occasion for the additional security of the precious metal. But if we are told that this would satisfy all minds, we are prepared to shew that even the responsibility of bullion might be retained in the country to answer for its national paper. This, however, would require restrictions, management, laws. We hold that there could be no panic or run upon our Notes; but if there were, if it could be alleged that they were unsound, that the land or funded property guaranteeing them was insufficient, then we say, let them be presented at the place of their issue, and redeemed by the gold and silver deposited for ever in the nation's coffers and treasuries. That these metals can be as readily procured and stored as any other commodities, requires no demonstration; and a capital in them ade-

quate to secure the paper currency from depreciation, even in opinion, would be a feather in the scale of Great Britain's wealth and resources. The acquisition and preservation of such a capital, and its applicability to foreign exigencies, wars, &c. &c., independently of its being held in trust for the currency, can be demonstrated with perfect conclusiveness: and till we may enter more into detail, we dismiss the subject.

There is only one thing more which remains for us (within our bounds) to mention at present,—the raising of a revenue upon the issues of the National Notes. We should propose, that upon the whole credit taken, a per centage should be paid by the customer, somewhat less (as the legislature might determine) than is now paid throughout the country wherever money is raised. There could, therefore, be no objection to it in the general system; and the revenue yielded, after abundantly supporting the expenses of the establishment, would enable government to repeal the most onerous of the assessed taxes.

It thus appears, that Individual or Private Customers of the National Bank would be in a better situation than they are at present, and able to raise money at a less cost: and with regard to Bankers themselves, either in England or Scotland, who obtained credits,

it may also be shewn, that they would enjoy other advantages pointed out in the *details* of the New Plan, into which, however, it has not yet been the object of these short Papers (devoted entirely to an outline of its leading principles) to enter. Hereafter we shall take these up, and prove, as we trust, the statement with which we set out, that they are the very essence of the System.

N° V.

*4th November, 1826.**

We feel strongly, with a valuable correspondent, that the important and difficult subject we have undertaken to discuss is one upon which the mass of the people cannot reason, though they feel the misery entailed upon them with regard to it by deeply-rooted prejudices; and that it is most essential to urge it upon the consideration of parliament,—through parliament upon the attention of government,—and thus ultimately to hope for the adoption of measures which shall give a permanent and unquestionable security, as a measure of value, to the currency of the country. It is to this purpose that our humble efforts have been and are directed; and it is honourable to the general Press of Great Britain, to observe with what alacrity, candour, and fairness, it has taken up the question, and thrown it out for public discussion. With this efficient assistance, we may truly assume that the Plan, the outline

* This paper was addressed to Correspondents, who had objected to parts of the Plan.—*Ed.*

of which we have very briefly explained, now occupies the minds most competent to form a judgment upon it throughout the kingdom, and very widely engages popular observation.

In this state of the case, we feel it to be our duty to proceed with such explanations as may tend to neutralise conflicting interests, and remove the existing prejudices to which we have alluded; desiring it, however, always to be remembered, that, in this place and in our personal character, we must only be viewed as pioneers endeavouring to clear the way;—and not as fully competent expositors, with space, information, and power, enough to develop the entire system, and level every obstacle which might impede its adoption.

The certain periodical return of national panics, national distresses, and national convulsions; the knowledge that they have occurred, and must in the nature of things occur and occur again, render it unnecessary for us to insist upon the expediency of establishing a new and better system, if such can be devised and carried practically into execution. We say that, not merely in our opinion, but in the opinion of very able and intelligent men, the Plan which has been opened in these pages is susceptible of being constitutionally effected, and made to operate with the utmost simplicity. An idea has been started, that the machinery must be very complex, and liable

to great friction and abuse: but it is not so. *Our* Bank is *not* a bank of deposit—it is a plain, uncomplicated Ledger Credit: and let any person, acquainted with business, consider the difference between the duties imposed by the former and the mere keeping of an account, and it will be perceived at once, that the national source of all the currency of the country, agreeably to our proposition, would not require an establishment so numerous as that of the present Bank of England. We should want no treasurers, no cashiers, no counters of money; in short, none, or very few, of the officers and officials who make the bulk of such concerns: an immensity of our business could be transacted by a score of competent book-keepers.

Again, with respect to an objection which is naturally felt by a people wisely and constitutionally jealous, namely that the control over the currency might lead to a dangerous authority, and, at some critical time, be abused by ambitious rulers; we are prepared to shew, that if our Plan were adopted in all its details, so far from any new and perilous *influence* being created for the *governing*, it would be widely and universally diffused among the *governed*. The legislature, it is true, must possess in this, as in every thing else, the power of ultimate appeal (that which it possesses with our currency, national debt,

and national resources of every kind *now*); but fixed laws and unalterable rules at the fountain-head;—never-closed and minute publicity;—the division and subdivision of the influence, so that the remotest parish in the empire should have its own due share;—these, and other checks which we cannot now enumerate, should so firmly, and manifestly, and continually operate, as to prevent the possibility of any abuse of power.

Having bestowed a few remarks upon these great, and it may be said, fundamental doubts which we have seen alleged against our Plan, we will venture to allude to other of its inherent qualities; not, however, with the design of entering into the details concerning them, but rather with the view to prove that the points connected with them have not escaped anxious and minute deliberation. We would not startle those who are accompanying us through these papers, by claiming too much; on the contrary, they may believe that we have always kept within the bounds of calm speculation and anticipatory benefits. But we are bold to state our perfect conviction, that the Corn and Usury questions (which distract the country, and puzzle the wisest) would be so peculiarly and materially affected by the proposed alteration in our currency, as to leave them open to incredible improvement. It seems demonstrable that corn might be preserved for ever in the

country, sound and fit for use, so abundant that no fear of famine could arise; and yet the landlord, farmer, and labourer, be perfectly protected and remunerated. With regard to usury—a usury to a high rate, most advantageous to the person who paid it, most thankfully paid, and eminently productive to the bank, its customers, and the revenue, must be the inevitable result of our Plan; but upon this we will not enter till we have more decidedly ascertained other points.* In regard to the Road Notes and distant Credits, another source of advantage may be anticipated. To exemplify this in a slight measure, let us ask who would not cheerfully pay half a crown or five shillings to be enabled to carry a hundred pounds with him from London to Edinburgh or Dublin, or to the Orkneys or Connaught, in a shape safe from loss, guarded against forgery, and offering no temptation to robbery? Then look to this capital of a hundred pounds passing from hand to hand within a short period, and each paying the trifling per centage for the great accommodation; and conceive what a beneficial practice you would have established for the bank, the traveller, the customer or distant agent, and the kingdom at large, without risk or panic.

* Indeed, we may observe that it is not necessarily connected with the system, and that either may be considered without reference to the other.

N° VI.

11th November, 1826.

We are desired to explain the means by which *our* outstanding *Sterling* Notes should retain that character after the customer on whose pledge they were issued had closed his credit account, and how that closing was itself to be effected. How, in fact, he might withdraw his name from the books,—his pledges and his responsibility for all the notes issued to him by the Bank, and by him to the public. We rejoice in the opportunity this affords us, because, while we give the answer required, we at the same time develop our Plan still further, and shew what we have stated, not only that we are prepared with the details upon every particular point, but that in these details consist the essential features and merits of the proposed design.

With regard to the inscribed Ledger Credit, on the security and publicity of which the Paper of the Nation is issued, suppose A. B. C. D. (all the alphabet) had become customers, and that A. desired to close his account. This could be accomplished in two

ways; by discharging the *balance** of his Ledger account in bullion at the rate of 123 grains per pound, being the mint standard of our pound sterling, or by discharging the same balance in Sterling Notes; upon doing either of which his pledge should be released, and his name removed from the list, his account cancelled, his pledges withdrawn, and all his responsibility terminated; for it must always be borne in mind, that no customer, by indorsing the Notes which he receives from the Bank, ever incurs any responsibility.

If he paid his balance in bullion, that bullion would remain in store, and augment the national deposit, to meet any of the contingencies contemplated as possible in our paper No. IV., independently of its being held in trust for the currency outstanding, if gold can be deemed equal in security to land.

* In illustration of an account of this nature, we extract the following from a letter in the *John Bull*, page 132, column 2: "As a matter of curiosity, and an indubitable proof of the advantages derived from cash accounts, I shall give you the state of my observations upon a 500*l.* credit for the last ten years. The aggregate amount of advances to me, 15,178*l.* 11*s.* 9*d.*, ditto of interest paid on the whole balances against me for that period, 11*s.* 7*d.* Now shew me by what other plan such accommodations could be afforded at so cheap a rate, and that too without vesting a single pound in the Bank that could have paid in a farthing of interest any where else."

If, on the other hand, A. discharged his Ledger Credit by the Notes of B. C. D. &c., it is evident, that though his own remained out, an equal proportion of theirs, of like amount, character, and perfect security, will have been withdrawn from the currency, without, in the slightest degree, deranging the general circulating medium. Nothing, therefore, can be more simple than the business of closing a credit; it is merely the retiring of an individual, while all the guarantees and securities remain *in statu quo*, as firm and ample as before.

On the important question of convertibility—the convertibility of a paper currency into gold and silver coin, it has obtained much of its ascendancy, as a desirable thing, in public opinion, from reasons which do not affect *our* system. When paper has been circulated, as it is now, without any guarantee whatever but the name and reputation for solidity of the issuer,—when millions of this unreal fiction pass from hand to hand throughout the country for real value; it was no unwise conclusion to demand as a check and security that it should be demandable in coin. But *our* paper is founded upon securities better than gold itself, and only represented to a certain extent by the Notes of the Bank: we need, therefore, no additional security, such as the power of conversion

into a metallic shape. On the contrary, we would not exchange our unalterable Note, a sterling pound, for a sovereign which might to-day be worth twenty shillings, and to-morrow worth only nineteen. The convertibility, heretofore so strenuously insisted upon, rested on two grounds—that (already mentioned) of being a sort of security for private paper, and secondly, of checking, in some degree, inordinate speculative issues. No one ever contended that metal was of itself a superior internal currency as a measure of value; but that, not being so abundant or so readily manufactured as paper, it formed a fair species of control over the latter. Now we have shewn that *our* paper does not need this as a security; and with regard to requiring it as a guard against too copious issues, we shall immediately dispose of that subject.

The issue of our National and Sterling paper should in its aggregate be under the guidance of the legislature — the Argus or supreme establishment should perform every act openly, and the most definite rules should bind it in all its bearings. But how should it be able to ascertain the exact or proximate amount of the country's wants? it could not say, at once, fifty millions are enough, or sixty, or seventy millions are enough, and therefore fifty, sixty, or seventy millions shall

go forth. There must be a demand for the supply: and we beg to refer to the following paragraph in the Gazette of last week:—

"With respect to an objection which is naturally felt by a people wisely and constitutionally jealous, namely, that the control over the currency might lead to a dangerous authority, and, at some critical time, be abused by ambitious rulers; we are prepared to shew, that if our Plan were adopted in all its details, so far from any new and perilous *influence* being created for the *governing*, it would be widely and universally diffused among the *governed*."

When we wrote this, we had a very striking part of our Plan in view: we allude to the subdivision of Britain into districts, circles, or parishes, each, as it were, legislating for itself in this vital matter. For example, let us take the existing division of parishes. Every parish could tell what it wanted in currency for the works and labour performed within its own boundaries. The agricultural parish of A. could ascertain that it needed a thousand pounds to pay labourers' wages, shopkeepers, government taxes, parochial and county rates, and other temporary expenses; and that during harvest, perhaps, it required fifteen hundred pounds. The manufacturing parish of B. could calculate that four thousand pounds were sufficient for its use; and if a new and beneficial source of prosperity were created, that hundreds or thousands more

would be necessary. Upon these grounds, the representations are made to the Argus—they are supported by facts; and the directing authority, having but one rule of conduct, *must* decide, not according to any theory of its own, but according to the demonstrated wants of every portion of and all the country.

Upon this, however, we have more to say than can be added to this paper: and shall continue the subject in our next.

N° VII.

18th November, 1826.

In proceeding to explain the Plan of a new national currency, which it has been the object of these papers to render familiar to every capacity, we take this occasion to state that our labour has been purely devoted to what we consider would be a great public good, and is free from the influence of private motive or selfish interest; and we say so *now*, because we have arrived at a point when it becomes necessary for us to shew how largely *the people* would be benefited were our system to be adopted. In our last No. we indicated that every parish in the kingdom might provide for its own wants in the article of currency — that it might readily and clearly ascertain what these were, in form and in amount, and obtain the requisite supply from the National Bank, so that all the intercourse of life might be regularly and unalterably carried on without fear of loss or fluctuation. Let us go more explicitly into this matter.

The inhabitants of any given parish (as the inhabitants of every parish could do) must consider what circulating medium would be

best adapted to their own peculiar circumstances; and in framing this estimate they must calculate the amount of taxes, parish rates, the various demands for subsistence and callings, and other obvious data; so that the sum total would be very nearly approached, even before experience taught them how to fix it accurately. With regard to the denomination of the currency, too, it would be desirable that the notes were for values suited to the local rates of wages, and to periodical or accidental wants, such as harvesting, making new roads, building, or other public work, might call for. Guided by these considerations, the Notes of parish A. should be for half-a-crown, a crown, ten shillings, twelve shillings, fifteen shillings, &c., up to any higher denomination, constantly and adequately furnished for the use of that parish alone, or, at most, confined to a very small circle in relation to it and to its population. These notes being so localised would not affect the general currency of the country; and many advantages would flow from their adoption. Let us premise, however, before mentioning these, that the lowest of them all ought to be admirably executed, so as to be very distinct, and bear upon its face the triumph of British ingenuity, art, and machinery. Besides the individual customers with Ledger Credits in *our* bank, the inhabitants of a

as the farmer; the farmer as well as the squire. The per centage paid for it on the first issue would relieve the country from the most onerous taxes; and yet after the issue was in circulation, there would be ample profits to the holders, i. e. *the people*. They are, in fact, their own bankers, and all the good which results from that is their own. By comparison from year to year, this practice would afford the Argus perfect grounds in detail to determine on the just medium between redundancy and scarcity; and from the particulars to the national aggregate, the course of certain calculation, by figures which cannot err, would be as precise as could be wished.

We have alluded to the small denomination of these parochial Notes; and our reasons are, that if the Paper be in truth sterling, there is no evil to be apprehended from its multiplication. On the contrary, by having such Notes as we would grant, much of the mischief, extravagance, drunkenness, and profligacy, which spring from the seeking of change in public-houses, would be averted; and much trouble would generally be saved. If the common rate of weekly wages was fourteen shillings, why not have paper of that value? instead of pounds only: the former, with the metallic currency of silver and copper, would be infinitely more eligible and service-

able; and there appears to be no reason for adhering to the latter except custom, and custom attended by daily and notorious inconveniences.

Again: every one being interested in the Notes of his parish, would be on the alert to detect forgery; and forgery would besides be far more dangerous, in consequence of the limited amount of currency of one sort. No villain, however bold or desperate, would risk his life to accomplish an imitation by which he could only hope to pass a pound or two in a limited circle before he was discovered and given over to justice. The temptation would not be equal to the skill and time required to perform the task.

Here, then, by the mere adoption of local or parochial banking—establishing a Ledger Credit, and procuring a circulating medium of its own, and suited to itself—you have a common interest,—no panics, for every man trusts himself,—watchfulness, for it is the concern of all,—economy, because the extravagance of one would be general loss, and not the gain of another as in divided interests,—liberality, because you can on sound, good, and solid grounds raise whatever money is wanted for beneficial undertakings,—morality, because you diminish the temptation to one great crime, forgery, and remove the inducement to vices by rendering public-house traffic

less necessary,—loyalty and attachment to the Constitution, because every subject has property at stake:—in short, view it how you will, we venture to affirm that it is as replete with vital and essential blessings to the community, as it is absolutely simple and easy of execution.

N° VIII.

25th November, 1826.

In all plans the object of which is public benefit, and especially in such as propose great changes of what exists, upon very novel modifications, if not upon entirely new principles, the fairest and most expedient course, in the first instance, is to press them upon the understanding of the country, by fully explaining their details and bearings. In pursuance of this axiom, we have continued to develop *our* system of National Polity and Finance, by devoting to it, weekly, a brief paper in this extensively circulated journal. It is true that by this method we have only brought forward detached parts in each of our Numbers; but we trust that we have made their connexion sufficiently clear, and that readers who feel an interest in the inquiry can perceive how accurately the whole can combine and blend together, so as to produce the inestimable good we aim at, — a sound currency—a currency susceptible of constant adjustment and arrangement—ample but not superabundant—equable and shared, to their comfort, by the lower classes of society—not

exposed to be affected by panics, and permeating, like the vital stream in the human frame, through every minute vessel, as well as the larger arteries and veins of the Body Politic, so as to vivify and invigorate its every fibre. This would certainly appear better demonstrated when our task has been closed, and the whole placed in one point of view; but in the meantime we proceed.

In our last Gazette we treated of Parochial Small Notes; in other words, of the *small change, sought* by parishes or subdivisions for their internal conveniency, the denominations fixed by themselves as suited to their wants, and this currency *tethered* (if we may use the expression) to their own bounds. Once supplied with this medium from the National Bank, the latter could have no further trouble with, or control over its management; so that this branch of the system could not complicate the machine. The case would stand simply thus: the parish A., upon the perfect security it has pledged, has obtained, in the form best adapted for its farmers, manufacturers, tradesmen, mechanics, labourers,—for its taxes, subsistence, wages, &c. &c. a quantum of sterling paper, which it keeps within itself, for its own purposes; which is familiar to it, and covered with familiar indorsations; and in which its whole population has a decided interest. This once issued requires no

further attention, and until worn out in the course of years, and a second supply is needed, the fountain-head knows nothing more of the matter than that the parish of A. has in circulation to the amount of —— in notes of such and such denominations.* For this amount, let it be remembered four *per cent* has been paid to relieve the country of its taxation: and paid with gladness too; by the subscribers, who will derive a higher per centage on their capital, while the parish at large will reap all the benefits of a fixed and sound currency and diminution of taxes, without abatement, or the necessity of a tax-gatherer. After the single act of issuing once, agreeably to the ascertained wants of every parish, the Bank, we repeat, is perfectly at ease with respect to this very important accommodation, full as it is of local conveniences, and subversive as it is of forgery, of doubts as to the stability of the medium, and of the necessity for public-house resort, to procure change and barter commodities.

We ought next to shew, more at length, how readily the necessary parochial securities may be found. There is the land-owner; will he refuse to take a part in what must so essentially better the condition of all ranks,

* By adding all these together, the aggregate amount of currency can be ascertained at any period by the Argus.

and improve his own income as well as his property? There are often real parochial funds which might be thus beneficially employed. But there are also *the people*— there are those who, from the wealthy trader or farmer to the humblest mechanic or hind, have saved their disposable five hundred pounds or fifty shillings. Let these contribute their respective shares into one fund, and let it be invested for the common weal. Upon that investment they establish their Ledger credit; they shew what kind of currency would be most beneficial to them; they obtain it; it is their own, and every advantage which accrues from it is fairly participated. Thus, supposing ten thousand parishes had each a thousand pounds in parochial notes, there would be *ten millions of pounds sterling* in circulation — a national medium founded on the pledges of the people in the national Ledger, while these pledges themselves were bearing interest to the investers. We put the question — would this be a solid and useful circulating medium, or would it not? and, beyond being the former, immeasurably out of comparison with the expedients now so prevalent, (not only debased coin and bad local notes, but tokens of all sorts, and mere nominal acknowledgments from paymasters to servants, &c.,) would it be the means of binding every rank to the interests

of their country by the strong bond of their own interests?

Again, we ought to observe that this merely local arrangement would neither clash nor interfere with the general currency of the realm. Still then, as now, there would be a proportion of gold and silver, especially of the latter; there would be notes of one pound, of two pounds, of five, of ten, of twenty, and so on to thousands of pounds, which would circulate duly and safely through the roads and principal arteries of the kingdom, in cities and in the great manufacturing towns. The passer-by, the traveller, the mercantile man, might furnish themselves with these as their business required; and besides these, to complete *our* Plan, with also the Road-note (explained in Nos. IV. and V.), and even other essential improvements which it would be easy to graft on such a general system, founded on the broad basis of perfect security and perfect truth. For example, when there were in every quarter of the kingdom agents in *daily communication* with the supreme National Bank, how simple would it be for A. B., with any number of ten-pound or larger notes, to cut off a corner of each, and make them *specially* his own by his signature, address, and (if requisite) other brief circumstances of security. By so obvious and easy a process, he could at once render the

sum which he carried in his pocket, if he lost it, or was plundered of it, unavailable to any bearer but himself. A trifling commission* would compensate the agent for giving him local change for this *Reserved Note;* which, being immediately re-transmitted to his *Ledger credit* at the common centre, the Bank, its whole operation would be finished. We need hardly explain at greater length, that the act of cutting off the corner of a note, thereby declaring it to be a *Reserved Note* for the sole use of the party so cutting and indorsing it, must proceed upon a general understanding to that effect.†

But we do not insist on these points: we only instance them to prove how universally applicable *our* Plan is, and of how many important modifications and advantages it is susceptible. Let us throw, in conclusion of this paper, only one slight glance at a general feature. By supplying the country with a *sterling paper currency,* the nation would reap at the outset a revenue equal to millions of taxes which might be repealed—the people, being their own bankers in detail, would enjoy all the emoluments of banking, emolu-

* For it is part of our Plan that agents or bankers should act upon commission.

† This conventional practice would effectually prevent the endless robberies that now prevail, on the transit of notes by the mail and other modes of conveyance.

ments which are at present gathered out of the poor, for the sole benefit of the rich; and, above all, the expense, the wear and tear, the actual loss upon a metallic currency, five per cent upon as many millions as are in circulation would be saved. From the expression of these sentiments, do not let us be thought levellers—our levelling system goes to raise the low, indeed, but at the same time to elevate the high still higher in their places, and make their stations infinitely more stable and secure than they can be amidst periodical panic-convulsions and far too widely-felt distress.

*** Parliament having now assembled, and begun the consideration of affairs highly important to the country, we shall take the opportunity of closing the papers on National Polity and Finance. With a very brief conclusion in our next Gazette, we shall have laid the broad outline of the Plan proposed to ameliorate the condition of the people pretty fully before the public. Of its efficacy we do not entertain the slightest doubt, and we may, hereafter, think it right and patriotic to enforce its claims to attention somewhat more at large; in the mean time we will leave it to make its own impression on the members of the legislature, on ministers, and on the sense of the country.

N° IX.

2d December, 1826.

HAVING, in our last Literary Gazette, fulfilled the promise made in that of the 30th of September, by elucidating, to the best of our ability, the general principle and outline of the PLAN first mentioned by us 29th April, for *establishing a sound and settled currency, liable to no fluctuations, but susceptible of easy and perpetual regulation, as circumstances required; representing real property, and being doubly or more than doubly secured; preserving the precious metals, and precluding the possibility of panic; being liable to neither redundancy nor scarcity; affording essential relief to the people by sharing among the many what now feeds overgrown monopoly, and lightening taxation; and, in fine, combining all the great and all the humbler interests of the community in one bond of union beneficial to the whole;* — having, we repeat, performed this duty, we have but few words to employ in coming to our conclusion.

What the country has been, and is, with regard to its currency, needs no illustration: with about as much of fiction as of truth in its monetary system, sudden expanses and

sudden restrictions affecting baseless issues, have made a state of instability disgraceful to an enlightened age, and produced those violent fluctuations between unreal abundance and real distress, the recurrence of which every man with a spark of good feeling in his breast must wish to prevent. Such is the object of these papers.

We have proposed what we consider to be unobjectionable in theory, and readily practicable in execution; and we are sincerely convinced, that if our Plan were adopted and acted upon (either entirely at once, or partially by way of experiment), that it must lead to unbounded prosperity and the highest human happiness in our native land. This we assume, also, not merely upon our own views and impressions; but because in all the discussion, public and private, to which the measure has given rise, not one radical objection has been alleged against its foundations, nor one tenable argument urged against its details, nor one dark foreboding thrown forward over the bright prospects which it holds out.

Instead of a currency of every kind and colour, furnished by individual interests for the sake of individual profits, tending chiefly to realise those emoluments, and not directed to a common end, we have demonstrated the

means of having a circulation belonging to the people, and having no other destination but the common good. We have shewn that the concern of government with this *Design of a National and public Credit, and a National and public Bank*, could be no source of unconstitutional influence, though a matter of the most anxious care, — since every government would serve itself in promoting the general diffusion of wealth, ease, tranquillity, and contentment. It would be an *Argus* to regulate the machine, so that it should not go wrong, rather than a power to prescribe or control its operations. By the simple fact of making our *Sterling Note* a legal tender for taxes and government annuities, and not convertible at the will of the holder,* it would stamp and recognise this Currency with sufficient character, and by returns and re-issues in these two ways alone, create an annual circulation (in a circle, if we may say so, pervading the entire kingdom) of *Thirty Millions*† in every year. Thus sanctioned by the legislature, and resting on the sure bases

* In one of our papers we consented to an exception to this if held to be requisite, by allowing the Notes to be convertible where issued, and there only.

† The tax of four per cent upon this sum alone, would enable ministers to repeal *one million two hundred thousand pounds of the assessed taxes.*

of landed and funded security for more than double its amount: we ask, fearlessly, who would not prefer this Sterling Paper to Gold Coin, which seems to be principally and purposely formed to encourage the injurious traffic in foreign exchanges and bullion?

We will not now retrace what we have stated with regard to the machinery necessary for carrying our Plan, in all its branches and details, into effect. Its facility and capability stand uncontradicted; its prevention of crime, forgery and robbery, and its encouragement of morality and patriotism, have been dwelt upon enough to impress these desirable qualities upon the consideration of the country. When, added to these advantages, any individual possessing a capital (say) of one hundred pounds might vest it securely, so as to produce to himself not only lawful interest, but for his own use, and for the use of his fellow-citizens, fifty per cent of sterling National Paper, to be circulated in notes of such convenient forms and denominations as every separate part and the whole population of the United Kingdom required; we need not insist on the vast superiority of the Plan we have had the sincere gratification of *thus* far developing, over the conflicting medley which we are most anxious to see it supersede.

It is now in its broad principles before the

world; and for the reasons we have already assigned, and looking to its working its honest way by other channels, we take our leave of it for a while—satisfied that, even if mistaken, we have disinterestedly and faithfully done our duty.

N° X.

9th December, 1826.*

HAVING, as concisely as we could, laid before the public a general outline of a Plan of Polity and Finance, which is, in our opinion, calculated to produce very important national benefits; and having assigned the reasons which induce us to go no further into details, we find it still incumbent upon us (as in the outset we invited discussion), to meet arguments or objections which come from sources worthy of attention, and to remove misunderstandings, where such arise, either from a want of explicitness on our parts, or from a want of sufficient consideration being given to our statements on the parts of others.†

* Similar to No. V.; this paper was addressed to remove the doubts and objections of Correspondents, and further to explain some points which did not appear to have been sufficiently understood.—*Ed.*

† In case of similar misconceptions hereafter; to prevent the necessity of any long quotations; and in order that the Plan may be conveniently viewed as a *whole*, and not in detached papers through several Numbers of the *Literary Gazette*, (which has indeed been exhausted far above its usual large weekly provision by the increased de-

Thus situated, we devote a short reply to the letter from C. H. D. X., a gentleman acknowledged to be one of the most practical and intelligent writers upon this vitally essential subject.

"Let us suppose (says this correspondent, speaking of our Plan), that the first and second propositions have been carried into effect; (viz. that the paper of the Bank of England has been all stamped at the proposed Government Office; all the present currency withdrawn from circulation, and the new currency substituted in its stead); and let us also suppose, that on the day in which this operation is completed, there is of this new currency fifty millions in circulation, and that this sum is that which is necessary for the commerce of the country.

"This then being the state of the case, it is proposed, that any person having lands worth 200,000*l.* may take the title-deeds of these lands to the aforesaid Government Office, and obtain for these deeds so left in pawn 100,000*l.* in notes. With these notes he may buy 100,000*l.* worth more land, and obtain by the same process as before 50,000*l.* more notes, and so on. Every man in England may do this; so that an increase may be made to the necessary currency of the country amounting to not less than half the value of all the lands in the kingdom."

mand for this exposition), we shall shortly publish it in the form of a pamphlet, with the lines numbered, and blank leaves for remarks, so that whatever objections are made, may be promptly and decisively answered by references to its declared principles and demonstrated practicabilities and advantages. - - - [This we have now done: see the advertisement prefixed to the present publication.]

We confess that we are surprised at this assumption, because when a similar supposition was made by the *Times* newspaper, we took some pains to explain the Plan distinctly upon the point at issue; and as it is better to confute objection by citing the grounds already laid down in the Plan itself, than by resorting to new reasoning, we shall take that method in the present instance. In our Paper II. October 14th, we expressly disclaim the idea of permitting the increase of the sterling paper to *an infinite amount*, and state that the system contained,

"Provisions by which not only the apprehension of the possible evil consequence expressed by the *Times* must be completely dissipated, but by which every contingency of creating political influence,—of admitting of partiality or injustice in administering the Plan,—*of raising a superabundant circulating medium,—of being available for wild or monstrous speculations,*—and of not fulfilling all its own pretensions in relieving every class of the community, and especially land-owners, *will be removed.*"

We do not know words more direct than these are to shew that we never contemplated any thing *but a limited issue* of the national paper; but we have throughout dwelt upon this restriction so much, that it seems extraordinary we could be misunderstood. Thus again, Literary Gazette, October 7th:

"Hence we think we may have abundance without superfluity; we may have abundance combined with

perfect security; we may have abundance subject to prudent regulation." * * *

"We have assumed double or twice the amount of security as a datum amply sufficient to satisfy the public creditor or holder of the paper; but should it be thought, on calculation, *that these premises might afford a superabundant medium, not sufficiently prevented, as we hold it would be by the Plan in another of its provisions to be hereafter treated of,* the security might be made three, four, or more times greater in proportion."—*L. G. October 14th.*

"Suppose the amount quadrupled, or sextupled, and you have, with the same ease, a perfect and secure sterling currency for the whole business of the country; authorised by the legislature, *and limited to a maximum,* so that no undue influence in any quarter could ever arise."—*L. G. October 21st.*

"Upon these grounds, the representations are made to the Argus—they are supported by facts; and the directing authority, having but one rule of conduct, *must* decide, not according to any theory of its own, but according to the demonstrated wants of every portion of and all the country."—*L. G. November 11th.*

But why should we multiply quotations? the entire spirit of our Plan and its machinery, is control and regulation of the issues, which are not to be arbitrary or speculative, but to answer *the demands* of the country, whether required for general uses, or for the uses of parishes or subdivisions; and it is declared,

"The Argus or supreme establishment should perform every act openly, and the most definite rules should bind it in all its bearings. But how should it be able

to ascertain the exact or proximate amount of the country's wants? it could not say, at once, fifty millions are enough, or sixty, or seventy millions are enough, and therefore fifty, sixty, or seventy millions shall go forth. There must be a demand for the supply."

And this demand is only satisfied at the charge of four per cent,* and not to *all* customers, but to customers selected from the mass of competition, agreeably to determined rules, and beginning with the lowest classes. It would indeed have been a gross absurdity if we had proposed that every pledge offered must necessarily have established a credit, and entitled the pledger to draw upon his account.

Our correspondent proceeds—

"Nothing is said in the Plan now under consideration of any mode by which the amount of currency necessary for the trade of the country is to be ascertained, whether it be 50 or 100 millions, nor how it is to expand or contract itself according to the exigencies of commerce."

So far from this, we had really imagined these very properties were among the most important features of our Plan. The duties of the *Argus* are thus defined:

"It should vigilantly inquire into the necessities

* We have assumed *four per cent*, as it would be a sufficient protection under existing circumstances; but other circumstances might require that this protection should be varied by the Argus, always sanctioned by the Legislature.

of the country, generally, partially, or individually, and regulate the issues accordingly, by increasing or contracting them.

"It should scrutinise all the pledges of freehold property, of funded property, by rules laid down, and admit or reject accordingly.

"It should prefer the smaller pledges, especially those that originated in industry and economy, to leviathan pledges, and thus multiply the supporters of government, the holders of national property, prevent combination, and promote a more equable, more general, and more governable diffusion of currency and property."—*L. G. October 14th.*

The amount of issues could "be augmented as readily if required by circumstances, or gradually and easily diminished by the receipt of taxes or other means, should a partial absorption be found necessary. But do not let it be forgotten, that whether increased or lessened, the matter is to be *publicly and openly done.* Every occurrence, and the state of the bank at any moment, must be on the face of its transactions, and comprehensible at one glance. From hour to hour, by regular and clear books, kept constantly up to the latest period, it should be obvious what number of notes were issued, of what kinds they were, and where the radius of circulation had demanded their augmentation, and where their diminution."—*L. G. October 21st.*

"Surely it requires no argument to demonstrate the extraordinary advantages of such a system. In the first instance, no part of the empire would desire more currency than it absolutely needed, because no one could wish to pay, say four per cent, to the Bank for a parcel of paper to lay by in idleness. Then with respect to what was obtained, it would not be as

now, for the emolument of any individual or company of persons who choose to embark in the speculation, but for the welfare of the whole, and accordingly respected and protected by the whole; thus ensuring confidence in its stability, and watchfulness over its integrity. The ploughman would have his stake in it as well as the farmer; the farmer as well as the squire. The per centage paid for it on the first issue would relieve the country from the most onerous taxes; and yet after the issue was in circulation, there would be ample profits to the holders, i. e. *the people*. They are, in fact, their own bankers, and all the good which results from that is their own. By comparison from year to year, this practice would afford the Argus perfect grounds in detail to determine on the just medium between redundancy and scarcity; and from the particulars to the national aggregate, the course of certain calculation, by figures which cannot err, would be as precise as could be wished."—*L. G. November 18th.*

Having thus proved that the objections here urged are not applicable to *our Plan*, but to an imaginary theory quite opposite to it—we need only repeat in the briefest terms, that the country being once saturated with the national sterling paper, nothing more would remain to be done. Instead of fluctuations, there would be a steady circulating medium, and the metal currency would meet all the variations in minor transactions. The aggregate would be limited by the Argus and Legislature, and also made (within that limit) to expand or contract, according to the exi-

gencies of commerce or other circumstances. The issues would be in compliance with unsatisfied demands of customers, the foundations for which had been subjected to scrutiny; and the diminution of issues would be effected (as needed) from day to day, by the liquidation of *Ledger Credits*, the return of *Road and Reserved Notes*, and the receipt of taxes, at the rate of thirty millions per annum: and all this, let us finally add, in the room of the existing system, which is full of every abuse to which it is erroneously alleged our Plan may be liable.

To conclude, we beg to quote from the able pamphlet of Mr. Henry Drummond, what he considers to be the greatest desideratum of the present age, and feeling that our proposal accomplishes every part of it, leave it, as we have said, to work its honest way to the conviction of the country.

Rejecting the idea of an entirely metallic currency as impracticable, Mr. Drummond says (p. 66), that

"The desired end may be attained by having a currency partly metallic and partly paper. This can only be done by fixing the amount of paper, and allowing this paper to be issued solely by the Government, or by the State Bank; by which means the fluctuations will take place in the *quantity* of coin only, and the *value* of the whole currency will remain unimpaired.

"By having an entire paper currency. The ablest

advocates for this plan are Mr. Ricardo and Mr. Attwood; and the writings of the former are, or ought to be, so well known, that it is useless to relate the details here. This is the plan which I prefer, because it is the cheapest; and 'cheap money, if it means any thing, means cheap taxes, cheap debts, and cheap burdens.' * * *

"Publicity (says Mr. D. elsewhere) is a *sine quâ non* in any system which is to make currency steady."

Backed by so high an authority, we trust that *our Plan, which must effect this desired end,* will meet with the powerful co-operation of Mr. Drummond and of all who coincide in his opinions.

To conclude :—

A paper circulation
inconvertible into gold—
a legal tender—
perfectly secured—
free from panic—
universally and equably diffused—
suited to local wants—
susceptible of regulation—
limited to a maximum—
guarded against forgery—
and yielding a revenue—
is fit to compete with the precious metals.

Therefore, the problem (proposed by the EARL of LIVERPOOL) of a currency making the value of property steady and invariable by the currency itself being steady and invariable, has, we think, been solved in the foregoing pages.

THE END.

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